

लाल बहादुर शास्त्री प्रशासन अकादमी
Lal Bahadur Shastri Academy of Administration

मुसुरी
MUSSOORIE

पुस्तकालय
LIBRARY

प्रवाप्ति संख्या
Accession No. ~~8255~~ 105723

वर्ग संख्या
Class No. 330.952

पुस्तक संख्या
Book No. AM

**A SHORT
ECONOMIC HISTORY
OF
MODERN JAPAN
1867-1937**

By the Same Author

MODERN JAPAN AND ITS PROBLEMS

THE INDUSTRIAL DEVELOPMENT OF BIRMINGHAM AND THE BLACK COUNTRY

JAPAN, THE HUNGRY GUEST
(George Allen & Unwin Ltd.)

BRITISH INDUSTRIES AND THEIR ORGANISATION
(Longmans, Green & Co. Ltd.)

THE INDUSTRIAL DEVELOPMENT OF JAPAN AND MANCHUKUO, 1930-1940
(in collaboration with E. B. Schumpeter, M. S. Gordon and
E. F. Penrose)
(Macmillan & Co. Ltd.)

A SHORT
ECONOMIC HISTORY
OF
MODERN JAPAN

1867-1937

by

G. C. ALLEN

*Professor of Political Economy
in the University of London*



London
GEORGE ALLEN & UNWIN LTD
Museum Street

FIRST PUBLISHED IN 1946
SECOND IMPRESSION 1950

All rights reserved

PRINTED IN GREAT BRITAIN
in 11-Point Fournier Type
CLEMENTS, NEWLING & CO. LTD.
ALFERTON

P R E F A C E

THIS book is a result of a study of Japan's economic affairs that has extended over a considerable period. The study began during my residence in the country between 1922 and 1925, and much of the material that forms the basis of the later chapters was collected during a second visit paid to Japan in 1936 for the purpose of investigating economic conditions at first hand. I began to write the book early in 1939, but the outbreak of the war compelled me to lay it aside for five years, and at the same time deprived me of access to some of the primary sources on which I should have liked to draw. The book was completed on the eve of Japan's surrender to the United Nations.

I have tried to describe the process of economic development in Japan between the time when she first entered upon her career of Westernization and the beginning of the war with China in 1937. I have written in the belief that an appreciation of this process of development is necessary both to an understanding of recent events in the Far East and also to the formulation of a wise economic policy towards Japan now that she has been defeated. But the book is intended to provide a background of knowledge rather than suggestions for policy or speculation about what is to come. The main emphasis throughout has been on industrial and financial development and organization and on economic policy, although the study has not been confined to those fields. It is hoped that economists and others who concern themselves with economic affairs and policy will find some general interest in tracing the evolution of a modern industrial system within a society so differently constituted from that of Western nations.

So far as possible, I have supported general statements by statistical evidence; but in order to avoid cumbering the text with tables and to provide the means of convenient reference, I have relegated most of the figures to a statistical appendix. I have included a bibliography which, though by no means complete, indicates some of the main printed sources that I have found useful and also offers suggestions for further study.

I am greatly indebted to my wife for help in preparing the book for publication.

G. C. ALLEN

August 1945

CONTENTS

| CHAPTER | PAGE |
|---|------|
| Preface | 5 |
| I. The Disintegration of the Old Régime | 9 |
| II. Reconstruction, 1868-81 | 26 |
| III. Financial Foundations, 1881-1914 | 42 |
| IV. Agriculture, Raw Silk and the Textile Industries, 1881-1914 | 56 |
| V. The Heavy Industries, Shipping and Foreign Trade, 1881-1914 | 73 |
| VI. The Great War of 1914-18 and the Post-War Decade | 90 |
| VII. Industry and Agriculture, 1914-32 | 106 |
| VIII. Economic Policy and the <i>Zaibatsu</i> , 1914-32 | 120 |
| IX. Reflation and Preparation for War, 1932-37 | 129 |
| X. Industrial Developments after the World Depres- sion, 1932-37 | 137 |
| XI. Summary and Conclusions | 154 |
| APPENDICES | |
| A. Glossary | 161 |
| B. Statistical Tables | 163 |
| C. Bibliography | 189 |
| Index | 196 |

Chapter I

The Disintegration of the Old Régime

THE rise of Japan to the position of a great Power ranks along with the reconstruction of Germany as the most significant of the political changes of the fifty years before 1914. To many Westerners the Japanese achievement, in the economic as well as in the political sphere, seemed so astounding as to defy rational explanation. Consequently, some of them were at times inclined to acquiesce in the views of those Japanese who sought the clue to their new-found glory in the realms of mysticism, while others attributed Japan's advance to a series of lucky accidents and prophesied that time would presently reveal an essential mediocrity. In the economic sphere especially, forecasts of imminent disaster and decay have been numerous and impressive at every stage of her modern history, and it was not until she plunged into war with the United States and the British Empire that a shrewder estimate of her strength became common in the West.

Some acquaintance with Japanese history during the Tokugawa era is necessary for an understanding of the circumstances that made possible the country's transformation after 1867 and her more recent progress. The popular conception of a people living for centuries under a system of picturesque feudalism and suddenly awakened to practical ambitions by the guns of foreign warships is far from the truth. The Japanese did not suddenly acquire that energy and restless ambition which have so disturbed the Western nations. Throughout their history they have shown a gift for rapidly assimilating new ideas and practices, a boldness in executing large projects and, above all, a trained and frequently exercised capacity for organization.¹ Furthermore, modern Japan inherited from her past certain political and economic institutions that could be easily adapted to serving the nation in its new rôle. Her social organisation, rooted in a special kind of family system, and the long centuries of feudal discipline, helped to produce a capacity for extreme self-abnegation on the part of individuals and an aptitude for corporate effort which served the country well in a time of rapid social and economic change; and the institution of an Imperial House which mythology invested with divine attributes provided a focus for patriotic fervour. Japan entered upon her course as a Great Power with an inheritance of political ideals and emo-

¹ Cf. J. Murdoch, *A History of Japan*, Vol. I, pp. 1-30.

tional dispositions well-fitted to supply driving force and unifying power in the task of nation-building.

These factors, though they cannot be neglected in an account of Japan's economic progress, belong rather to the sphere of political history, and it is upon others that we must dwell here. It has been customary for some foreign writers to refer to the primitive nature of Japan's economy before 1867, and to treat the Tokugawa period as though it were an era of almost complete stagnation. Recent work by Japanese and Western scholars, however, goes to show that in the seventeenth, eighteenth and early nineteenth centuries important industrial and commercial developments took place, and that the break between the old and the new Japan was much less sharp than has hitherto been supposed in the West. We shall begin with a brief description of the outstanding characteristics of the political, economic and social condition of the Tokugawa era and then examine the process of disintegration which ultimately led to the changes of the Restoration.

The outcome of the prolonged civil wars of the sixteenth century had been the establishment of the House of Tokugawa as Shogun, or secular rulers of Japan. The Shogun in theory owed allegiance to the Emperor whose family from time immemorial had been the *de jure* head of the State. During the Tokugawa era, however, the practice of acknowledging this allegiance lapsed; and the Emperor lived in seclusion at Kyoto, surrounded by his Court and playing no part in the government of the country. Indeed, foreigners who came to Japan in the seventeenth and eighteenth centuries commonly regarded the Shogun as the real head of the State. The form of government instituted by the Tokugawas was a military dictatorship, known as *Bakufu*. The Shogun, together with the various branches of the Tokugawa family and its immediate vassals, owned between a quarter and a fifth of the agricultural land of the country, and derived the major part of his revenues from that source. The rest of the country was held by lords, or *daimyo*, who enjoyed a considerable degree of autonomy in the administration of their territories (*han*), and over whom central control was exercised chiefly through the requirement of the *sankin kotai*. This meant that each important *daimyo* was obliged to spend several months every year at Yedo (Tokyo), the seat of the Shogunate, and to leave hostages there when he returned to his fief.¹ The retainers of the lords and Shogun formed an "estate" known as *samurai*. This class appears originally to have consisted of farmers who had the right of carrying arms, and who, in time of war, were called upon to serve their lord. With the alteration in the methods of warfare during the six-

¹ *Sankin kotai* may be translated "alternate attendance."

teenth century they had for the most part broken their links with the land and had come to live as military retainers in the castle-towns (*joka-machi*) of their lords, who granted annual allowances of rice for the maintenance of the *samurai* families and their hereditary servants.

The *samurai*, though all members of the privileged class, differed widely from one another in power and wealth. Some of them had large allowances and exercised the chief administrative functions of the *han*; but the majority received meagre grants of rice and acted as ordinary men-at-arms. During the long period of peace, both internal and external, which existed during the Tokugawa era, the *samurai* had little opportunity of practising their traditional function as warriors, and since industry and commerce were supposed to be unworthy of them, they became, with the exception of men who had administrative duties, a functionless and parasitic class. This indeed was the inevitable consequence of the Tokugawas' success in establishing peace after a long period of civil strife during which the warrior had risen in prestige and importance. As the *samurai* and their families numbered about two million persons, or one-sixteenth of the population, on the eve of the Restoration, the maintenance of this large idle class must have constituted a heavy burden on the rest of the nation.

Among the non-privileged classes the peasants formed a large majority, and at the end of the Tokugawa period they possibly represented three-quarters of the whole population. They were subjected to many of the restrictions on their liberty with which the European serf was familiar. They were forbidden to leave their land and to migrate to the towns. Their freedom of cropping was restricted by the lords in the interests of a local self-sufficiency in foodstuffs, and sumptuary regulations governed the style of their clothing and dwelling places. Individual liberty was limited not merely by rules imposed from above, but also by the spontaneous growth of associations for mutual assistance from among the peasants themselves. Each village formed a unit which assumed a joint responsibility for the payment of taxes and for the proper cultivation of the land.

The peasants were the source of the major part of the revenue received by the Shogun and the *daimyo*. The annual land tax formed the most important payment. This varied widely from province to province and was altered frequently at the will of the lord. It was paid in rice, and it usually amounted to between 40 and 50 per cent of the total yield of the paddy-fields. In addition, other payments in kind and service were exacted from the peasants. Japanese writers are at one in declaring that this tribute reduced the peasants to a condition of extreme indigence—"their lot was

so hard that they appeared to exist solely for the purpose of paying taxes";¹ but whether they were worse off than the European peasant of the eighteenth century is a question that has not yet been answered, and is probably unanswerable. There seems to have been considerable variation in the economic condition of different types of peasants. Thus, in the latter half of the Tokugawa era, while the majority of them were small peasant proprietors subjected to feudal obligations, there was an important class of tenants who farmed land belonging to richer farmers or townsmen, and also a growing number of labourers who worked for the larger farmers. There are indications here that capitalistic elements were beginning to modify the old feudal system of tenure—a change which the lords tried in vain to prevent.

The crops consisted mainly, as to-day, of rice grown in irrigated fields. On the upland fields the farmers raised millet, barley, wheat, soya beans, vegetables and tea. They produced also industrial crops, such as mulberry leaves for the silkworms, lacquer, indigo, hemp and cotton. In the course of the Tokugawa period there was a considerable extension in the range of crops, and some of the subsidiary branches of the agricultural industry, such as sericulture, grew substantially. Improvements in agricultural methods, which brought about a rise in productivity, also took place, and this accords ill with the commonly expressed view that the peasants became increasingly impoverished during that era.² The peasants, then as to-day, did not confine themselves strictly to agricultural pursuits. Those who lived near the sea-coasts combined fishing with agriculture, and nearly all the peasant families carried on subsidiary industrial pursuits. Indeed, a large proportion of the manufactured articles in ordinary use was produced by them, either for their own consumption, or to the orders of merchants according to a system of domestic industry. During the winter months, moreover, there was a seasonal migration of workers from rural to urban districts. This description of the activities of the Tokugawa peasants applies with surprisingly slight modification to those of the Japanese farmer in modern times.

To a large extent, especially in the early days of the Tokugawa régime, a "natural" economy prevailed in the rural areas. The peasants paid their dues to the lords in kind and service. They provided themselves with most of the food, clothing and other articles which they needed, and they bought from outside only such things as salt, metals, medicines and, in the case of the inland communities, fish. The gradual penetration of a

¹ E. Honjo, *A Social and Economic History of Japan*, p. 231.

² See the discussion of this question in G. B. Sansom, *Japan: A Short Cultural History*, pp. 454 *et seq.*

money economy into the country districts had, as will be shown, an important influence in Japan, as in Europe, in breaking down the older political and social system.

The specialized manufacturing industries of the towns depended largely on the demands of the privileged classes. In the *joka-machi*, or castle-towns of the *daimyo*, groups of specialized handicraftsmen produced clothing, furniture, metal articles, swords and other military equipment for the *samurai*; and while in general the market for these products was local, some of the craftsmen catered for a wider demand. Numerous highly-skilled crafts were also carried on at Kyoto, the artistic centre of Japan; and at Yedo many trades had appeared after its establishment as the Shogun's capital and after the institution of the *sankin kotai*. In the later days of Tokugawa the population of Yedo was about one million persons, and it was the chief consuming centre in the country. Osaka, "the city of merchants" and the main breach in the feudal citadel, had a population of three or four hundred thousand and was another important manufacturing centre.

The crafts were controlled by guilds which bore a fairly close resemblance to the European craft guilds. The guilds regulated prices and conditions of production, sale and apprenticeship. Membership was limited and hereditary, and it could be acquired by a newcomer only through the purchase of the *kabu* (membership-privilege) from a retiring member. The guilds which had been recognized by the central government in the Trade Association Decree of 1721, paid taxes to the Shogunate or the *daimyo*, and the names of members were registered with the authorities. Unlike their European counterparts, they seem to have taken little part in the political or administrative life of the localities in which they were formed. Important as they may have been in the sphere of trade regulations, they seldom ventured beyond these narrow boundaries, and they remained essentially subordinate to the feudal society around them.

Industrial activity was by no means limited to the guilds. As already shown, a form of domestic system was widespread in Tokugawa times. Articles manufactured by peasant families and urban workers were bought by merchants and distributed in the chief consuming centres. Sometimes the merchants made advances of raw materials and equipment to the producers, and in trades in which the operations were numerous and complex they assumed the responsibility for dividing the work in its various stages among the producers. Much of the raw silk, cotton and silk textiles, paper, mats, lanterns and many other articles were produced according to this system, and some of these industries became localised in particular districts or provinces. This system persists to a remarkable

extent, even to the present day, and the manufacture of many of the older types of product is still localized in the same districts in which the trades were conducted a century ago. Nor were factories unknown during this time, although they were all small and relatively unimportant features of economic life. Workplaces employing up to one hundred persons were to be found in several of the textile trades; small factories existed in the *sake*-brewing industry and in wax manufacture; and there were some comparatively large enterprises in the gold, silver, and copper-mining trades. These were for the most part operated by the Shogun or by *daimyo*, and the importance of copper among Japanese exports during this era testifies to the magnitude of this industry. From the later years of the seventeenth century coal also was produced, and from early in the eighteenth century the famous Miike mine was worked by the local *daimyo*, as a fairly large-scale undertaking. Iron, produced from iron sand, was another industry into which large-scale capitalistic methods were intruding. That the iron and mining industries should provide the chief exceptions to the prevailing methods of production under the domestic system need cause no surprise. For obvious reasons this has been the case in most countries in a similar stage of development, just as in Japan, as elsewhere in early times, the conduct of these industries rested mainly in the hands of the Government or large landed magnates. Towards the close of the Tokugawa era these authorities began to take the initiative in setting up other large-scale trades; but this development will be examined later.

In spite of the largely self-sufficient character of most of the peasant communities, the volume of trade between different parts of the country was far from negligible. It was indeed stimulated by the political system of the time. Just as the establishment of castle-towns led to the growth of handicrafts to cater for the needs of privileged groups of consumers who lived in them, so the institution of the *sankin kotai* necessitated a system of communications, a large movement of goods from the provinces to Yedo, and highly developed forms of financial and commercial organization. Rice and other products of the lords' territories were consigned to Osaka and Yedo for sale, so that the *daimyo* might be provided with funds to cover the expenses of their periodical journeys to the capital and of their residence there. As a result there grew up an important merchant class to handle the various financial and commercial transactions to which this business gave rise. Great warehouses were built in the two chief cities to store the commodities brought from the provinces, and organized markets appeared there in which transactions in futures took place. The *daimyo* frequently raised money on the security of their revenues, and so a class of financiers developed to provide these loans and to

arrange for the transmission of funds from one part of the country to another. Various types of credit instruments, such as bills of exchange and promissory notes, were in common use, and the chief financial houses had a network of branches in different parts of Japan. The merchants were highly specialized as to goods and function, and they formed themselves into guilds for the regulation of trading conditions and for restricting their numbers. With the growth of the cities during the Tokugawa period retail shops became very numerous, and even in the early eighteenth century Kaempfer had commented on the number of these shops in Kyoto and the variety of goods sold in them. Some of these retail enterprises were on a very big scale; the House of Mitsui, for example, is said to have employed over a thousand people in its Tokyo shops at the end of the eighteenth century,¹ and there were other forerunners of the great stores so characteristic of the cities of modern Japan.

The *sankin kotai* had led to a marked improvement in the roads. There was comparatively rapid communication between Eastern and Western Japan along the famous Tokaido, although traffic was impeded by the barrier gates erected along the highways by the Shogun for the purpose of controlling the movements of his subjects, and also by the policy of limiting the building of bridges over the rivers which intersected the main roads. The coastal trade reached a considerable volume. Although the Government did not permit the building of large ships because of its policy of isolating Japan from the rest of the world, yet there was a large and high organized traffic between the chief ports, especially between Yedo and Osaka.

The regulations of the Shogunate had a crippling effect on foreign commerce. As is generally known, from the early days of the Tokugawa era the policy of seclusion was followed, and for many years Japan's economic development was only slightly affected by the influences that result from international trade. After 1641 commerce between Japan and the outside world was restricted to that conducted by the Chinese at Nagasaki and by the Dutch merchants whose factory was established at Deshima in the same neighbourhood. The volume and composition of this trade were strictly controlled. The chief imports consisted of raw silk and silk piece-goods, and as these were paid for by exports of gold,

¹ *The House of Mitsui*, p. 6. These shops appear in some of Hiroshige's prints; they were also depicted in a painting by Buncho. The Mitsuis had little to learn of the arts of salesmanship and publicity. They provided free umbrellas to customers caught unprepared by unexpected showers; each umbrella bore the sign, or trademark, of the House. They paid popular actors to introduce subtle references to the firm in their lines. They had a Code in the best traditions of Rotary.

silver and copper, the trade was regarded with some disfavour by the Government, since it seemed to endanger the country's supply of precious metals. The main purpose of the seclusion policy was to assist in the preservation of the rigid political system which the Shogunate had established, and so it is natural that the policy extended to foreign cultural influences. In the early part of the era even translations from European languages were proscribed; while Japanese were forbidden to leave Japan and foreigners to settle there. Although with the connivance of the southern *doimyo*, who were hostile to Tokugawa, some of these regulations were evaded, especially towards the end of the era, the policy of seclusion was on the whole effectively carried out. This served to intensify the shock to the economic system of contact with the outside world when the country was at last thrown open to foreigners.

We must now consider the reasons for the collapse of the Tokugawa *régime* and of the economic system associated with it. To European observers in the third quarter of the nineteenth century this change appeared to be both sudden and catastrophic, and the impression that it represented a complete transformation still remains among many Westerners. Yet, in reality, it came as the culmination of a series of developments that had been steadily weakening the Shogunate; and profound though the subsequent changes undoubtedly were, Japan carried into her modern era many vestiges, economic as well as political, of the older forms. The contention that the main cause of the Shogunate's collapse was the forced opening of the ports to foreigners cannot, of course, be sustained, although pressure from abroad was undoubtedly a contributory cause. From the later years of the eighteenth century the difficulty of preserving seclusion, the keystone of Tokugawa policy, was increasing. English and other European traders were insistent on the need for opening up relations with Japan, and they tried repeatedly to obtain from the Shogunate the right of calling at the ports and trading with the people. The Russians descended on Saghalien and made several attempts to establish diplomatic relations with the Japanese Government. The settlement of the west coast of the United States brought American ships to the Western Pacific, and American whalers were frequently observed in Japanese waters.¹ For a time the Shogun was able to evade the demands for permission to trade or to shelter; but when Perry steamed for a second time into Suruga Bay in 1854 and refused to leave without an agreement

¹ J. Murdoch, *op. cit.*, Vol. III, p. 527. Cf., also, J. F. Kuiper, "Some Notes on the Foreign Relations of Japan, 1798-1805," in *Trans. of Asiatic Society of Japan*, December 1924.

which meant in effect the end of Japan's seclusion, the Government had to acquiesce.

The breach once made was very soon enlarged. In 1858 the Government was compelled to sign treaties which conferred rights of trade on British, French and other nationals; five ports were opened to foreign shipping; and extra-territorial rights were granted to foreigners. The irresistible might of Westerners' naval equipment was demonstrated to the clans most hostile to this enforced change of policy by the bombardments of Kagoshima and Shimonoseki in 1863 and 1864. Foreign aggression thus brought to light the weakness of the old régime, emphasized the need for change and, to some extent, determined the nature of the transformation in Japan's economic and political life that subsequently occurred. But the view, once widely held in the West, that "the bombardment of Kagoshima was the paramount cause that impelled Japan to adopt the foreign civilization" was rightly criticized by Griffis as early as 1875.¹ As he says, "the foreigners and their ideas were the occasion, not the cause, of the destruction of the dual system of government. . . . Their presence served merely to hasten what was already inevitable. The true cause of the recent marvellous changes in Japan . . . operated mainly from within, not from without; from impulse, not from impact."²

The internal influences chiefly responsible for the changes are to be sought in the political, religious, intellectual and economic life of the country. Our concern is with the economic causes of change; but lest these should be given a disproportionate weight, a brief reference must be made to others. Tokugawa Iyeyasu (1603-16) and his immediate successors had made Buddhism the national religion, had discouraged inquiry into the past history and traditions of Japan and had fostered Chinese scholarship, particularly that of the Sung school. For many years under rigid governmental censorship these influences were paramount. But gradually they were undermined. The fall of the Ming dynasty brought many Chinese scholars to Japan and provided a new intellectual stimulus. There was a revival early in the eighteenth century of interest in ancient Japanese history and literature. The publication of the Prince of Mito's *History of Great Japan* informed the literary classes of a time when the Emperor, not the Shogun, held sway over the country, and towards the end of the eighteenth century scholars and propagandists, among whom was the celebrated Nobunaga Motoori, proclaimed the necessity for casting off Chinese and Buddhist influence and for returning

¹ W. E. Griffis, *The Mikado's Empire*, Vol. I, pp. 292-3.

² *Ibid.*, p. 291. Cf., also, G. B. Sansom, *op. cit.*, p. 460, where he states: "What opened the doors was not a summons from without but an explosion from within."

to the ancient beliefs associated with Shinto. Among these were the doctrines of the divinity of the Emperor, of the descent of the Japanese from the gods and of their possession of peculiar virtues by right of this distinguished descent.¹ These movements in the world of thought had important political repercussions, for they were all antagonistic to the Shogunate as well as to the forms of scholarship which those rulers had fostered. The slogan *Sonno Jo-i*² which roused the clans to action after the incursion of Perry is said to have been "a compendious and practical summing up of the logical results of Motoori's teaching." The propaganda was gratefully received by the Western clans which, though subdued by Tokugawa in the sixteenth century, still smarted under the government of a house of which they had once been the peers. Their dissatisfaction was constantly stimulated by the arrogant attitude of the Shogun's own retainers. Being most distant from the capital, moreover, these clans were difficult to control, and they formed the natural seat of political movements hostile to Tokugawa. When the Shogun was forced to come to an agreement with foreigners and in doing so appeared to sacrifice Japan and the Emperor to the barbarians, they were able to demand in the name of patriotism the change of government which their interests and ambitions had long required.

Hostile as these clans were to the encroachment of Western nations on the independence of Japan, they themselves had in the eighteenth and early nineteenth centuries provided a channel for influences that helped to shatter the old Japan. The lord of Satsuma in Kyushu connived at illicit trading on the part of Chinese and European merchants. He encouraged the study of English and Dutch, and Kagoshima, his capital, became an important centre of intellectual activity and a source from which the knowledge of Western ideas and practices spread over the rest of Japan. In the second quarter of the nineteenth century several young Japanese *samurai* secretly left the country against the explicit orders of the central Government for the purpose of studying Western civilization, and these included many Satsuma men who played a prominent part in the creation of new Japan. Long before this, moreover, Western intellectual influences had been gradually permeating the country. In the eighteenth century the Japanese intellectual classes began to acquire what was known as the "Dutch learning" (*Rangaku*), that is to say, a knowledge of Western

¹ "Little credence was reposed either in the ancient myths in general or in the theory of the divine descent of the Mikado in particular in eighteenth-century Japan before Motoori began his thirty years polemic in their support." J. Murdoch, *op. cit.*, Vol. III, p. 482.

² "Reverence the Emperor and exclude the foreigners."

sciences (particularly astronomy, anatomy, medicine and military science) through the medium of the Dutch language. In the early part of the nineteenth century this tendency grew in strength and some three thousand students are said to have passed through the Dutch School at Osaka during the twenty-four years after its establishment in 1838. The Japanese intellectual classes were thus not ignorant of the material progress of the West, nor were they unacquainted with its pre-eminence in applied science. This knowledge made them critical of the existing forms of government and apprehensive of the dangers to Japan that the growing power of the Western States might bring.

The economic causes of the change were of profound, perhaps of pre-eminent importance. Prince Matsukata, the great financial administrator of the Meiji era, was one of the most notable of the public men in new Japan to emphasize these causes,¹ and recent investigations bring out clearly the economic disintegration that had been taking place for many years before 1867. It is evident that from the early years of the nineteenth century, and indeed before this, the Tokugawa régime was being shaken by serious financial difficulties and by changes in the social and economic structure of the country which were the source of widespread discontent.

Let us first examine the financial position of the central Government. The first of the Tokugawa Shoguns, Iyeyasu (1603-16), had accumulated a large reserve of treasure, chiefly through seizing the property of *daimyo* who had been hostile to him; but this was dissipated during the second half of the seventeenth century, partly through rising administrative expenses and partly through numerous earthquakes and fires which devastated Yedo. In the next century efforts to maintain financial stability were successful only for short intervals. Apart from his rice-revenues, the Shogun derived an income from taxes imposed on traders resident in the ports and large towns, which were mainly under his control, and from mining properties operated by the central Government. The restrictions on foreign trade meant that only a meagre income was available from import or export duties, and so the Shogun had not at his command a source of revenue which rulers in Europe had found increasingly important as the income from their domains became insufficient to meet the growing expenses of government during the same period. Financial administration was lax, and owing to the corruption of officials, a considerable part of the proceeds of the taxes failed to find its way into the Treasury. Attempts to wrest higher taxes from the peasantry led to frequent jacqueries and to a tendency for the farmers to desert the land for

¹ Cf. S. Okuma, *Fifty Years of New Japan*, Vol. I, p. 359.

the towns, a movement which struck at the whole basis of the revenue and which official prohibition seems to have done little to check. From the latter part of the eighteenth century, moreover, the country was visited by a series of natural disasters, including earthquakes and famines, and historians have concluded that the population, which had steadily increased in the early part of the Tokugawa era, declined in the subsequent period.¹

To meet his growing difficulties, the Shogun did not hesitate to resort to the traditional expedient of governments in financial distress, and the currency suffered successive debasements so that the purchasing power of the standard coin by the middle of the nineteenth century was only one-eighth of its purchasing power in 1661.² The rise in prices which debasement caused provoked great discontent among the classes injured by it, and the trouble was accentuated as a result of the issue by the *daimyo*, for the purpose of meeting their own financial difficulties, not merely of illegal coinage, but also of large quantities of notes secured against stocks of rice and other consumable goods, including even umbrellas. A second expedient of which the Shogunate made increasing use was the exaction of benevolences (*goyokin*) from the *chonin*, the rising merchant and financial class. After the collapse of the seclusion policy the Shogunate's finances rapidly degenerated. The danger from abroad obliged the Government to incur heavy expenditure for improving the national defences and for maintaining diplomatic representatives. Moreover, it had to pay heavy indemnities to foreign States for outrages on their nationals committed during periods of anti-foreign feeling.³

Meanwhile, feudal society in the provinces was breaking up. The maintenance of hordes of idle retainers absorbed a large share of the *daimyo's* revenue, while the *sankin kotai* proved to be an increasingly

¹ R. Ishii, *Population Pressure and Economic Life in Japan*, pp. 13-15.

² A. Andreades, *Les Finances de l'Empire Japonais et leur Evolution*, p. 26.

³ The disorganization of the currency was completed by the impact of foreign trade on the supplies of metallic money in existence at the time. The Tokugawa Government maintained a monopoly of silver and found it profitable to over-value, in terms of gold, the silver coins which it issued. The gold-silver ratio was accordingly fixed at 1 : 5 compared with a ratio in the outside world of 1 : 16. When the Treaties were signed with foreign Powers in 1858, it was agreed that the Japanese Government would exchange Japanese silver coin for foreign silver weight for weight. The Government evidently did not realize the inevitable result of this provision. Foreigners imported large quantities of Mexican dollars, the chief medium of exchange in the Far East, exchanged them weight for weight with the Japanese token silver coin (the *ichi-bu*), turned the *ichi-bu* into gold *ko-ban* at the ratio of 5 : 1, and shipped the gold to Shanghai where it could be exchanged for silver at a ratio of 16 : 1.

heavy burden as the lords vied with each other in conspicuous expenditure at Yedo. Attempts were made to reduce expenses by cutting down the *samurai's* allowances with the result that the lower strata in this class became impoverished. In their search for additional revenue, the *daimyo* increased their issues of paper money, which tended further to disorganize the economic life of their *han*, and they also established various industrial and trading enterprises of a monopolistic kind, a policy which helped to modify the character of the feudal society. After the middle of the eighteenth century the *daimyo* came to rely to an increasing extent on loans. These were secured on their rice revenues, and they were raised from the merchants who acted as the *daimyo's* agents for selling their rice. The result was that the merchant classes increased in wealth and influence. "Sometimes the finances of the *daimyo* were controlled by a certain money-lender who loaned money to a *daimyo* with rice as a security."¹ Great merchants like Konoike who acted as agents and bankers for the lords were able to live like princes. A contemporary chronicler wrote: "Although in form the *samurai* govern and the commoners obey, in reality it seems to be an age when the *chonin* rule";² and another declared: "The anger of the wealthy merchants of Osaka has the power of striking terror into the hearts of the *daimyo*."³

If the position of the lords was shaken, that of their retainers, especially those in the lower ranks, became deplorable. Their impoverished lords often held back part of their rice grants. Since their incomes were paid in a commodity liable to violent fluctuations in price, their economic position became increasingly unstable as a result of the spread of a money economy in the towns where they lived for much of their time. Many *samurai* were even obliged to sell or pawn their swords and armour, the insignia of their privileged rank, and to engage in occupations traditionally despised. They often entered the service of merchants or set up in trade on their own. By the nineteenth century the majority of them had given up the practice of maintaining hereditary servants, and the strong personal ties which previously existed between the family of the *samurai* and that of his servant were thus destroyed. The sharp divisions of status and function that were characteristic of early Tokugawa society became blurred in consequence of these changes. The formerly despised merchants, as we have seen, acquired wealth and power. The *daimyo* were engaging in trade and industry, and their *samurai* were beginning to follow commercial occupations. It became the practice for the *samurai* to adopt the sons of rich commoners into their families; while others even

¹ E. Honjo, *op. cit.*, p. 197.

² *Ibid.*, p. 199.

³ *Ibid.*, p. 201.

sold their *samurai* status to commoners.¹ Thus the whole system of personal relationships upon which the old scheme of society rested was falling to pieces. It is ironical to reflect that the very success of Tokugawa in imposing rigid control over the feudal classes contributed ultimately to the destruction of the social and political system. For the bulk of the *samurai* became functionless, and the *sankin kotai*, besides impoverishing the lords, stimulated the development of trade, a money economy, and so a financial and commercial class which could not be easily accommodated within the old feudal structure.

During the last few decades of the Shogunate, and especially after the opening of the ports to foreigners, the central Government seems to have accepted the proposition that fundamental changes were required in administration and economic policy. At all events, it began to introduce a series of reforms which the Meiji Government later carried through. Envoys were sent abroad to study foreign conditions; restrictions on the building of ocean-going ships were abolished; and warships and merchant vessels were purchased from abroad. During the last ten or fifteen years of his rule the Shogun was busily engaged in constructing dockyards, iron-works and other industrial plants modelled on Western lines. He borrowed from France and the United States to finance these new enterprises. He introduced administrative reforms and threw open important offices, previously the perquisite of men of high rank, to men of talent. He was even contemplating the abolition of the *han* and the establishment of a modern system of centralized government.

The Shogun also attempted to deal with the rise in prices, which was causing unrest in the early decades of the nineteenth century. This rise in prices was commonly attributed at the time to the activities of the guilds. These organizations were pursuing an increasingly exclusive policy. In consequence, there was a considerable growth in the number of journey-men (*shokunin*) who, though qualified by apprenticeship for the status of master craftsmen, were not admitted to full membership of the guilds. Disputes between the *shokunin* and the guilds were frequent, and the latter found increasing difficulty in maintaining their monopolistic rights over trade. Meanwhile the *samurai* who saw the *chonin* class usurping their traditional place in society, had conceived a deep detestation of the merchants and the guilds in which they were associated. This sentiment was felt especially for the merchants engaged in foreign trade which in the fifties and sixties began to disturb the old economic structure. The monopolistic practices of the guilds had already been challenged in the

¹ Prince Ito, the great statesman of the Meiji era, was the son of a farmer who had purchased *samurai* status from a retainer of the Mori family in Western Japan.

provinces by the tendency of the local governments to set up their own manufacturing and trading organizations in order to improve their financial position. The Shogun hoped to follow this example in his own domains, and by generalizing this practice, to prop up the decaying structure of feudalism. A blow was given to the merchants' privileges by the decrees of 1831 and 1843 which abolished all forms of guild. The immediate result of this step, however, was to disorganize economic life still further; for the abolition of the guilds involved the destruction of the credit system that rested on the *kabu*, or membership privilege. The disorganization was so serious as to compel the Government in 1851 to make some attempt to revive the guilds in a modified form. But since the number of *shokunin* had by then greatly increased, it was not possible to restore the monopolistic privileges which the guilds had enjoyed, and they were finally swept away during the next few years. Thus, institutions which the Shogun had recognized for the purpose of enabling him to control the economic life of the country and which provided him with a useful adjunct to his revenue in the form of licence fees, had crumbled even before the political revolt had begun. When foreign trade began to increase after 1858, the social distress that had attended these economic troubles was intensified. The distribution of economic resources that had been stereotyped by a policy of seclusion and rigid trade regulation could not be preserved once Japan was exposed to the conditions of the world market. Old trades decayed as cheaper substitutes for their products began to be imported, and contact with the West was accompanied by alterations in the tastes of the people which diverted demand into new channels. Adaptation to these new circumstances was not easy and was often attended with hardship for the older types of producer.

The effect of the impact of the outside world was especially obvious in the relative prices of the period 1859-67. There was an enormous rise in the price of raw silk, egg cards, rice, tea and, in general, articles for which a foreign demand became keen. On the other hand, imports of cheap cotton textiles, yarn and other products of machine industry brought about a steep fall in the price of such goods.¹ Naturally these changes caused economic dislocation. The silk-weaving trade suffered through the rise in price of its raw material, and the producers of cotton textiles were damaged by the influx of foreign goods. Many of the farmers, however, benefited as a result of the expansion of the foreign demand for raw silk and tea. Capital began to flow into Japan from abroad not merely through the loans raised by the Shogun and *daimyo*, but

¹ Cf. S. Okuma, "The Industrial Revolution in Japan," in the *North American Review*, Vol. I, p. 72; and E. Honjo, *op. cit.*, Chap. XI.

also through the financial activities of foreign merchants who now settled in Japan. This affected the whole organization of industry. Factories for turning out textiles and metals were set up both by central and local governments, and the domestic system, characterized by the commercial predominance of the merchant over his dependent groups of craftsmen or peasants, was widely extended.

The process of adjustment to these new conditions gave rise to social and economic strain, and, among the groups damaged by the changes, to serious unrest. Thus, just as the opening of the country and the conclusion of agreements with foreigners—a policy which force of circumstances compelled the Shogun to follow—brought him in the eyes of his enemies to the position not merely of a usurper of Imperial rights but also of a betrayer of his country, so both the financial difficulties of the régime which the Shogun had striven to preserve and the economic chaos that attended the transition to a new order could be placed to his account. The Shogun suffered discredit both for the economic and political evils attendant on the old régime and also for his actions calculated to change it. He had alienated the most powerful classes in the country, and any step he took, however necessary or inevitable it might prove in the light of subsequent judgment, was mistrusted because of his equivocal position in relation to the Emperor, and so provided another argument for his overthrow. At a time when the nation needed bold and vigorous leadership, the Shogun was precluded by his loss of prestige from supplying it. Other men and other institutions had to be used.

It was not, however, among the *chonin* that the leadership needed to usher in the new world was mainly found. Some of them, notably Mitsui, helped to finance the revolt against Tokugawa. But, as a class, the *chonin* owed their wealth to their position as financial and commercial agents of the *daimyo* and Shogun; the interests of most of them were bound up with the old régime, even though they might sometimes suffer from its exactions. With a few notable exceptions, the great merchants failed to seize the new opportunities which the development of foreign trade and of new industries offered to them, either before or after the Restoration. It was the *samurai* of lower rank from the "outside" clans who initiated the revolt and played the major rôle in weaving both the political and the economic fabric of New Japan. This class, during the Tokugawa period, had become increasingly impoverished, and their social privileges had been curtailed as a result of their economic distress. Far from having any stake in the old régime, their interests lay entirely in the direction of change.

At the time of Perry's first arrival (1853) the Shogunate still seemed

impregnable. But the foundations of its rule had been undermined by political, economic and intellectual changes, and it needed but the shock of foreign aggression to bring down the whole edifice. When the Western clans, led by an extremely able group of *samurai*, moved against the Shogunate in the name of the Emperor, the resistance was trivial. In 1868 the House of Tokugawa was overthrown, and the Emperor was restored to a constitutional position which he had not occupied for some 800 years. This Restoration almost coincided with the death of the Emperor Kei-o and the enthronement of his successor, then only sixteen years old. The Meiji era had begun and, with it, the career of Modern Japan.

Chapter II

Reconstruction, 1868-81

THE Restoration Government, though composed of many men who had bitterly opposed the Shogun's policy of coming to terms with the foreigners, advanced farther in the same direction once the new régime had been established. It recognized that Japan's military weakness and her economic backwardness might make her the easy spoil of Western Powers, and it judged that the rapid adoption of Western methods in war and industry could alone enable her to retain her independence. In a sense Japan was fortunate in that the breaking down of her seclusion was not delayed. In the fifties and sixties the liberal international outlook of the most powerful European countries was not conducive to colonizing adventures by ambitious statesmen, while the United States was distracted by internal feuds. Had the opening up of the country been deferred until the new era of imperialist expansion, Japan might well have succumbed to attack from abroad. Even as it was, Japan formed a field in which French and British rivalries displayed themselves, for France in the years preceding the Restoration lent her support to the Shogunate, and England to the revolting clans. What had been an especially potent influence in awakening Japan to her danger was the "Opium War" of 1839-42, which demonstrated both the superiority of Western armaments to those of the East, and also the possible fatal consequences of that superiority to the territorial integrity of Oriental nations.¹ Defence, therefore, became the main task of the new Government, while those numerous Japanese whose fear of the Western nations was mingled with admiration of their prowess overseas considered that the adoption of Western material equipment might enable Japan to find a place among the aggressors instead of among the victims of aggression.²

After the Restoration the control of the central Government rested, under the Emperor, in the hands of those vigorous leaders of the Satsuma, Choshu, Tosa and Hizen clans who had led the revolt against Tokugawa.

¹ Cf. G. F. Hudson, *The Far East in World Politics*, pp. 24-26.

² Some interesting reflections on this point are to be found in T. Kada, *Social and Political Factors in Japan's External Economic Policy*, pp. 3-6 (Japanese Society of International Studies, Tokyo). Cf., also, I. F. Ayusawa's statement: "The slogan of the Meiji era which permeated all thinking minds and inspired the New Japan was 'Fu-koku Kyo-hei,' or 'Rich Nation, Strong Army'" (in H. A. Marquand's *Organized Labour in Four Continents*, p. 483).

There was naturally discontent among the *samurai* who were shut out from power, especially among the clans who had supported the Shogun, and it was not until 1870 that opposition to the new Government was finally put down. Even within the clans which now controlled the State there was no unanimity about policy, and in 1874 there took place a rebellion in the Saga clan and in 1877 the more serious Satsuma rebellion, the last fight of expiring feudalism. Not until this rebellion had been suppressed could it be said that the political revolution had been completed and the country unified.

1. *General Economic Changes*

These political struggles naturally imposed a severe strain on the administrative capacity and the financial resources of the central Government. At the same time the country was still in process of adjusting itself to the new economic conditions created by the opening of the country and by the decay of the political institutions on which economic life had depended. Nevertheless, the achievements of the new Government were remarkable. A mere enumeration of the reforms and innovations for which it was responsible during the first fourteen years of its existence is sufficient to indicate the energy and determination which it brought to its policy of westernizing the country's institutions. In 1869 feudalism was abolished and the clans surrendered their fiefs to the Government. In 1871 prefectures were established in place of the *han* and the old financial and administrative system associated with feudalism disappeared, while shortly afterwards far-reaching reforms in taxation were introduced; these will be further discussed when we come to consider the fiscal and financial history of the period.

The changes effected by the Government in social, industrial and commercial organization were as important as those in finance and politics. Most of the remaining restrictions on freedom of movement and enterprise that had been a legacy of the old régime were abolished. In 1869 the equality of the various social classes before the law was declared; local barriers to communications and restrictions on internal trade were swept away; freedom of cropping was allowed; entry into professions and trades was thrown open; and individuals were allowed to acquire property rights in land. The Government's attempts to introduce a new régime were not confined to permissive measures; for it was realized that in the absence of an industrial and commercial class familiar with Western trading methods and technique the State was obliged to take positive action to bring about the modernization of the country's economic life. The business class which had been left as a legacy of the Shogunate con-

sisted for the most part of mere financial agents of the old régime, and few of its members were fitted to act as entrepreneurs in the new era. Even under Tokugawa foreign experts had been engaged to instruct the Japanese in Western methods of mining and manufacture. This policy was pushed much further in the early years of Meiji, and in 1872 there were at least 200 foreign technical experts in the employment of the Government. Japanese were encouraged to go abroad to acquire Western knowledge, and means were devised to provide for the technical education of the people. For instance, samples of foreign goods and foreign machinery were imported by the Government and lent to the prefectural authorities who used them as models for the producers in their locality. Itinerant teachers were sent round the country. Schools and colleges were soon established by the State, including engineering, mining and agricultural colleges. Agricultural experimental stations were set up to assist in the adaptation of foreign crops to Japanese conditions and to work out improved methods of farming. In 1869 the Government founded a Commercial Bureau to supervise and encourage foreign trade, and it provided for the establishment of organizations for developing the exports of artistic products. In 1877 it organized an Industrial Exhibition at Ueno Park, Tokyo.

The Government had a particularly keen interest in foreign trade at this time. Large payments had to be made in foreign currencies in return for imports of equipment, such as merchant vessels, warships, munitions and machinery, needed to carry out its programme of Westernization. There were also interest payments to be made on foreign loans. Yet in the undeveloped state of Japan's commerce and finance, the necessary foreign exchange was not easy to obtain. On many occasions during the seventies the State itself engaged in export transactions with this end in view. For instance, it purchased domestic stocks of rice, tea and silk, sold them abroad and used the proceeds of the sale to finance the imports it urgently required.¹ The State soon realized the necessity of introducing the new methods of communication that had played so important a part in the industrialization of the West. In 1871 a new postal and telegraph system was introduced, and six years later Japan joined the Postal Union. In 1869 a steamship line between Osaka and Tokyo was formed, and shortly afterwards the first railway was built—it connected Tokyo and Yokohama—on the proceeds of a Government loan raised in England. What is more, the State took the initiative in establishing a large number of manufacturing establishments equipped with Western machinery for

¹ *The Currency of Japan* (A Reprint of Articles and Reports: published by the *Japan Gazette*, 1882), pp. 185, 198, 219.

producing new products or goods hitherto manufactured by primitive methods. In this it was but carrying further a policy begun before the Restoration. We have already seen that several of the more enterprising *daimyo* had set up Western-style factories during the first half of the century. The lord of Satsuma, for example, had founded works for the manufacture of pottery, cannon and cotton yarn. Indeed, the first cotton spinning mill in Japan was started in 1861 by this *daimyo* who imported Lancashire textile machinery for the purpose. The Shogun himself had founded Western enterprises, including two shipbuilding yards, during the later fifties. The new Government, however, pursued as part of a deliberate plan of national economic development what the feudal chiefs and Tokugawa had only tentatively begun.

A brief reference to some of the Government's activities in the industrial field will demonstrate their wide range. To begin with, the State took over many of the undertakings of the Shogunate and the *daimyo*, re-equipped and re-organized them. During the seventies it built and operated cotton spinning mills of a Western type in the Aichi and Hiroshima prefectures; and in order to encourage private enterprise, it imported and then sold foreign spinning machinery to entrepreneurs on the instalment plan. From 1858 onwards exports of raw silk had grown rapidly, but even so the development of this trade was handicapped by the lack of suitable equipment. For instance, the Japanese type of reeling machine, driven by manual or water power, was incapable of producing the standardized qualities of silk demanded abroad. So, in 1870 the Government established at Maebashi and Tomioka factories on French and Italian models. Other model factories built during the seventies with the object of encouraging the importation of Western technique, were the Shirakawa White Tile Works, the Fukugawa Cement Works, the Senji Woollen Web Factory, and a sodium sulphate and bleaching powder works.¹ Certain factories were established for the specific purpose of stimulating the development of particular localities; for instance, the Development Commission of Hokkaido set up at Sapporo a brewery and a sugar factory.

The creation of a munitions industry was, of course, the most urgent requirement of the period, and here the Government had two foundations on which to build. These were, first, the workshops in which arms had been made for the *daimyo*, and secondly, the powder and munitions factories of the Shogunate. The new Government took them all over and re-equipped them. Thus, the Nagasaki Iron Foundries which had belonged

¹ Y. Honyden, "Der Durchbruch des Kapitalismus in Japan," in *Weltwirtschaftliches Archiv*, July 1937, pp. 31-2.

to the Shogun were the parent of the new Government's artillery works, and the Kagoshima shipbuilding yard, originally owned by the lord of Satsuma, was adapted to the manufacture of warships. A woollen mill to supply the army with uniform cloth was built in 1876 and an engineering factory in 1879.¹ All mineral properties were declared to belong to the Government which leased mining rights to persons desirous of working them. In the late sixties and early seventies nine large mines (gold, silver, copper, iron ore and coal) were actually operated by the State as model enterprises. The Government also gave attention to the development of a mercantile marine. In 1874 it bought ocean-going ships from abroad, and later transferred these to the Mitsubishi firm which, with Government assistance, operated both coastal services and lines to Formosa and China. Foreign captains were engaged to command its ships and to train its seamen, just as the services of foreign technicians and workmen were made use of in the organization of the new manufacturing enterprises. It can be said with truth that there was scarcely any important Japanese industry of the Western type during the later decades of the nineteenth century which did not owe its establishment to State initiative.² In 1880 Count Okuma, in a summary statement of Government-owned industrial undertakings and properties, enumerated 3 shipbuilding yards, 51 merchant ships, 5 munition works, 52 other factories, 10 mines, 75 miles of railways, and a telegraph system which linked all the chief towns.³ At that time the Government was giving help to several shipbuilding yards, besides those which it owned, and it was subsidizing mail steamship services. It had taken steps to develop Hokkaido and to encourage emigration to that thinly populated island. All this was achieved during a period when the Government was faced with great financial difficulties and with two major rebellions.

Under the stimulus of Governmental example and of the new opportunities caused by the freeing of trade and the opening of the country, industry and commerce began to advance. The railway mileage, including State lines, increased to 122 by 1881. The tonnage of the mercantile marine grew from about 1,500 in 1870 to about 50,000 in the early eighties, and there was a gradual increase in the number of ships built in Japanese yards. These ships, however, were very small, and in 1880 the

¹ Y. Honyden, "Der Durchbruch des Kapitalismus in Japan," in *Weltwirtschaftliches Archiv*, July 1937, pp. 31-2.

² "We find that every company or manufactory deserving of notice in any way has been furnished with capital by the Government or has been endowed with special privileges by the same power" (*The Currency of Japan*, p. 260).

³ *The Currency of Japan*, pp. 76-80.

tonnage constructed in Japan amounted to only 3,200 tons of steam and 1,100 tons of sail. Various public utilities spread slowly to the chief cities, including gas supply and tramway services. Apart from the new enterprises in the hands of the Government, the number of concerns engaged in the manufacture of Western-style products remained small; but the foundations of many undertakings which later became important were laid. For example, in the early seventies, plants for the production of beer and cigarettes were initiated by private individuals; and the Ashio copper mines were acquired and re-organized by the Furukawa family in 1877. A number of new small-scale manufacturing industries appeared, such as the manufacture of matches; while many of the old-established trades succeeded in adjusting themselves to the new conditions. In particular, the steady increase in the demand for raw silk for export continued to bring advantages to the peasantry.

This progress, however, was not evenly spread; for certain groups of producers which had already been injured by the opening of the country to foreign trade, suffered further injury through the abolition of feudal institutions. "A vast number of occupations which had hitherto been thriving had suddenly to be abandoned, and skilled labourers and artisans were thrown out of employment in thousands. Moreover, all kinds of monopolies and business privileges which the *daimyo* granted to their favourite merchants and to themselves ceased to exist with the fall of feudalism."¹ When the Shogun gave up his residence at Yedo (Tokyo), this meant the withdrawal of an enormous number of retainers, both his own and those of the *daimyo*. The economic life of the town was for a time paralysed by this loss of a large consuming class. Similarly, when feudalism was abolished, the Osaka merchants whose business had been to sell the rice crops sent to that city by the *daimyo* lost their chief function. In the provinces industrial life had formerly centred round the castle towns. "Many tradesmen of all occupations whose labour once found a market at the castle or among the hosts of retainers quartered near it, now found but scanty occupation and poor recompense. The productions of many of them [were] superseded by foreign goods."²

Foreign trade, though still small by the standards of later times, increased considerably in the decade following the Restoration. In 1868 the total value of foreign trade, calculated in silver yen, amounted to about 26 million; by 1873 it had risen to about 50 million yen, and by 1881 to 62 million yen. In interpreting these figures we should remember that

¹ S. Okuma, "The Industrial Revolution of Japan," in *North American Review*, Vol. 171.

² *The Currency of Japan*, p. 37.

during the seventies silver was depreciating both in terms of gold and of commodities in general, and that, therefore, the growth of foreign trade was less than at first sight appears. This is borne out by the fact that between 1873 and 1880 the tonnage of merchant ships entered at Japanese ports from abroad rose only from 566,000 to 691,000.¹ Except for the years 1868 and 1876 the value of imports far exceeded that of exports, and the total adverse balance on the visible trade between 1868 and 1881 amounted to nearly 79 million yen. The adverse balance of payments was, of course, far greater than this because Japan had to remit large sums abroad for financial services rendered by foreign merchants and banks who handled nearly all the foreign trade, and for shipping services, as well as for various Government payments. This debit balance was met partly by foreign capital movements, namely the proceeds of the two loans raised in London and the short-term capital imported by foreign merchants and financial houses, but chiefly by the export of specie which the inflationary policy of the time encouraged. The net export of specie from 1872 to 1881 amounted to over 70 million yen.²

The composition of the foreign trade was typical of a country in Japan's stage of development. The bulk of the imports consisted of manufactured goods, of which textiles, particularly cotton, formed by far the most important group of commodities. The import of cheap Manchester goods rose very rapidly in the early seventies and displaced many of the domestic fabrics formerly produced in the homes of the people. Other fairly important items consisted of capital goods, such as machinery, ships, railway equipment, munitions, and other manufactured metal products. Great Britain occupied a pre-eminent position in Japan's import trade at this time and was responsible for about half of it. This was due, not merely to the superiority of England's manufacturing industry, but also to her highly developed organization for conducting foreign trade, her experienced merchant houses and her financial machinery.

Exports consisted mainly of raw products of which raw silk and tea were the chief. Raw silk had long been produced in Japan, but the development of the industry had been handicapped by sumptuary laws which forbade the wearing of silk clothes by commoners. By one of the many fortunate accidents that have attended Japan's modern development it happened that the opening of Japan to foreign intercourse coincided with the outbreak of silkworm disease in Europe. A strong demand for Japanese silkworm eggs and raw silk developed, and silk became at once,

¹ Even in 1880 only about one-fifth of the total tonnage entering the ports was Japanese-owned.

² *The Currency of Japan*, pp. 287, 326.

what it has remained until very recently, by far the most important item among the exports. Although the competitive position of Japanese raw silk in European markets was assisted by the opening of the Suez Canal in 1869, yet the trade did not expand very rapidly in the seventies, because the French had by then been able to rebuild their industry by importing supplies of healthy eggs from Japan. Nevertheless, the relative importance of this trade to Japan is shown by the fact that the only occasions on which she had an export surplus during this period (namely in 1868 and 1876) were years in which demand for her silk rose sharply owing to the failure of the French and Italian crops. Japan would necessarily have found greater difficulties than she did in carrying out quickly her programme of Westernization if this accident of nature had not created a large foreign demand for one of the few products which she was capable of producing for export in the early days of the modern era.¹ The second most important export commodity was also a product of Japanese agriculture, namely tea, which was sent for the most part to the United States. In addition, an export trade grew up in rice, from which the former export prohibition was removed in 1873, and in marine products. Copper, the chief export in Tokugawa days, remained fairly important. Manufactured goods came low on the list and they consisted almost entirely of the traditional products of the Japanese craftsman—pottery, fans, Japanese-style paper, lacquer and bronze wares. With the exception of copper, all the Japanese exports came from the small-scale industries many of which were conducted in peasant households. In the raw silk trade, for example, the peasants at that time produced not only the cocoons, but also reeled the silk in their farm-houses. The few manufactured articles among the exports were produced either by localized groups of skilled craftsmen or, as with matches, by women and children working in small workshops or in their own homes.

2. *Financial Problems*

In 1868 the new Government found itself faced by grave budgetary difficulties. Because of the cost incurred in crushing the clans hostile to the Imperial régime, public expenditure was heavy, while revenue was difficult to obtain. The whole of the revenue which the Shogun drew from his own domain and on which that ruler had mainly relied for meeting his administrative expenses was not yet available for the Meiji Government, and the local governments still preserved financial autonomy. The chaotic state of the country made it difficult for the Government to impose new taxes, and agreements with foreign Powers strictly limited the amount

¹ In 1876 nearly half of Japan's exports consisted of raw silk.

that could be secured from customs duties. The expenditure in 1868 was 25 million yen; while Government revenue from ordinary sources amounted to no more than 3.7 million yen.¹ The Government obtained *goyokin* from Mitsui and other merchants who were among its chief supporters, and it borrowed on short term from several Japanese and foreign merchant houses. Total receipts from these sources were only 5.4 million yen and consequently there was a deficit of nearly 16 million yen in that year. In 1869 expenditure amounted to 20.8 million yen, while revenue from taxes, short loans, fines and *goyokin* came to only 10.5 million yen.² In these circumstances the Government was obliged to resort to the printing press, and in those two years notes to the value of 48 million yen were issued. Some of them were issued through the medium of the old Exchange Companies (*Kawase-gumi*) which made large profits on the business. Prominent among these companies was the house of Mitsui. The issue was resented by the *daimyo* who feared the effect of the Government notes on their own paper money, and the general distrust of the Government's position led to a heavy depreciation in their value. At one time during 1868 the notes exchanged for specie at a discount of 55 per cent. The currency situation was, indeed, alarming; for the monetary circulation comprised not merely these new issues of inconvertible notes, but also gold and silver coins in varying degrees of debasement—an inheritance from the Shogunate—and about 1,500 varieties of clan notes.

The forces hostile to Meiji had been finally crushed by the end of 1869. In consequence the Government's expenses diminished, and in 1870 there was no considerable rise in the note issue. The cessation of inflation, together with the increasing confidence in the new régime, was responsible for an appreciation in the value of the notes which, the Government had announced, were to be redeemed in 1873. In 1871 the abolition of the *han* widened the sources of State revenue, and in the same year an attempt was made to reform the coinage. A law was passed defining the content of the gold yen and making it the standard coin, although at the Treaty Ports the silver yen, equivalent in bullion content to the Mexican dollar, was declared to be legal tender. At the same time the Government set up a mint at Osaka equipped with modern machinery and staffed by foreign experts.

But there were still serious difficulties to be overcome. With the

¹ M. Takaki, *The History of Japanese Paper Currency*, p. 11.

² This account of Japanese finances is based largely on S. Okuma, *A General Review of Financial Policy during Thirteen Years (1868-80)*, and on other articles and reports in *The Currency of Japan* (Japan Gazette).

abolition of the *han* the Government assumed responsibility for local administration. Although the revenues which the *daimyo* had previously received from their subjects were henceforth due to the central exchequer, it was not easy at first to ensure the collection of these sums. The Government, moreover, had to compensate the lords for surrendering their rights, and at the same time to take over their former liabilities. The most onerous of these was the provision of annual pensions for the *samurai*, whose functions as feudal retainers had now ceased. Further, the Government made itself responsible for the debts of the *daimyo*, and it had to provide indemnities for the Buddhist church on its disestablishment. These measures increased the budgetary difficulties. In 1872, for example, while total expenditure was 58 million yen, revenue reached only 33 million yen. New issues of paper money were accordingly made, and the amount of Government notes in circulation rose to over 73 million yen in that year.

The State next assumed responsibility for the local notes formerly issued by the *han* governments. For redemption purposes these notes were valued at the market rate then ruling in terms of Government notes, and the amount was placed at 26 million yen. Thus, at the end of 1872 the total volume of paper currency in circulation amounted to just under 100 million yen. In the next year the Government, in fulfilment of its promise to redeem its notes, offered bonds bearing interest at 6 per cent in exchange for the paper currency. Fewer of these bonds were taken up than had been anticipated, partly because the current rate of interest was far above that carried by the bonds, and partly because of the rise in the value of the notes. Nevertheless, by June 1876 the note issue had fallen to 94 million yen, and by that time the notes were practically at par with specie. Indeed, because of the sudden increase in the foreign demand for Japanese silk at that time through the failure of the European crops, they actually stood at a premium in terms of Mexican dollars and silver yen in the latter part of 1876. Thus, by that year the Government seemed to have solved its chief currency difficulties, and this success had been achieved in spite of the expenses in connection with the annual payment of pensions to the privileged classes, the expedition to Formosa and the Saga Rebellion in 1874. At first sight it may seem surprising that the great expansion in the note issue during the first eight years of the new régime had failed to bring about a larger depreciation. But Japan at the time was passing quickly from a natural to a money economy. Industry and population were increasing; local barriers to trade had been destroyed; and money payments had been substituted for rice payments in the case of the land tax. Thus, along with the rise in the quantity of money, there had occurred

simultaneously a considerable expansion in the demand for it, and so its value had been largely maintained.

During this period, while the greater part of its budgetary deficits had been met by note issues, the Government had also raised loans for the same purpose. The money borrowed on short term during the first two years of the régime had all been repaid by 1871. Apart from these short-term loans, others were also contracted during the period before 1876. Two were raised abroad—in London. The first, in 1867, was a loan of $3\frac{1}{2}$ million yen, mainly for the purpose of constructing the Tokyo-Yokohama railway, and the second, 10·7 million yen, was raised in 1872 to provide funds for meeting the obligations incurred through the abolition of feudalism. In addition to these, domestic bond issues were made. One, as already mentioned, was used for the redemption of paper money. Two others were issued in 1873 to cover the liabilities of the Government incurred through taking over the debts of the *han*, and a further issue consisted of Pension Bonds. The Government offered these to members of the privileged classes who wished to capitalize their annual pensions. By June 1876 the total unredeemed liabilities of the Government in the form of bonds amounted to 55 million yen.

In the meantime an attempt had been made to reform and systematize taxation. In the days of the Shogunate the chief revenues of the local and central governments, as we have seen, had come from the land tax, arbitrary in amount and payable in rice. In the years immediately following 1872 a new assessment was made with the object of affording a basis for a more equitable tax. The net average produce of the various holdings during a five-yearly period was valued at the prices then ruling and was capitalized at rates varying from 6 to 7 per cent. On this a land tax of 3 per cent was at first imposed, but in 1876 it was reduced to $2\frac{1}{2}$ per cent. Under the old régime the people had also been subjected to a large number of miscellaneous taxes which scarcely repaid the cost of collection. In 1875 the whole system was drastically reformed, and in the course of the next five years the number of taxes was reduced from nearly 1,600 to 74. The land tax, however, remained for many years the only important source of revenue, and in 1879–80 it accounted for four-fifths of the whole tax revenue.

Although by 1876 these reforms in taxation had not yet yielded their fruits, the fiscal position at that time was by no means unsatisfactory, especially in view of the difficulties with which the Government had been confronted. A large part of its liabilities was an inheritance from the Shogunate, and its period of office had been one in which it had been engaged in suppressing rebellion and in transforming the administrative

and economic life of the country. Some of its debts, moreover, were covered by valuable assets, such as a railway and several industrial and commercial undertakings.

Its financial troubles, however, were not yet over. In 1877 the Satsuma Rebellion broke out and heavy expenditure was incurred before it was finally subdued. This expenditure was covered, in part, by another issue of Government notes to the amount of 27 million yen, and, in part, by a bank loan of 15 million yen. About the same time, the State decreed that the pensions of the privileged classes should be commuted, and to this end it issued to them interest-bearing pension bonds to the amount of 174 million yen. The national debt was thus raised in the course of 1877 from 55 million yen to over 240 million yen, although of course most of this increase represented merely the capitalization of an existing annual liability. The commutation of the pensions is of great importance because of its indirect effect upon the currency situation. To understand how this might be, we must consider the circumstances in which the first banks of a modern type were instituted in Japan.

The collapse of the old régime had meant the destruction of the financial machinery dependent on it. The last vestiges of the guild system had been swept away "as being opposed to the principles of political economy,"¹ and the old merchants and financiers whose credit was bound up with that system suffered severely. "For a time all dealings on credit came to an end,"² and there was in consequence a great tightness of money. The abolition of the *han* also struck a blow at the structure of commerce and finance. The merchant-bankers of Osaka and Tokyo had acted as the *daimyo's* agents for the disposal of their rice revenues. They were accustomed to make loans on the security of this produce, and they possessed an organization for remitting money from one centre to another. The disappearance of the *han* brought this business to an end and swept away many of the old merchant houses in a common ruin. Two of the wealthiest merchants, Ono and Shimada, went bankrupt in 1873, and a large number of smaller firms ceased business. At the same time the establishment of a centralized Government meant that taxes formerly paid to the local governments were now sent to a central exchequer, and this produced a pronounced tightness of money in the distant provinces at tax-collecting time. Thus, with the old financial mechanism in chaos and with new financial problems arising as a result of the political changes, fresh banking institutions were obviously required. In the early years of Meiji several new *Kawase-gumi* (exchange companies) had been formed by wealthy merchants. These carried on ordinary banking business and were autho-

¹ See S. Okuma's Report.

² *Ibid.*

rised to issue notes against their reserves. But they scarcely met the needs of the new era, and so in 1872 the establishment of Western-style banks with the right of note issue was authorised.

On the advice of Prince Ito the American system of national banking was taken as a model, in spite of opposition from those who favoured a central banking system. According to the Regulations issued in 1872, a national bank was to deposit Government paper money equal to three-fifths of its capital with the Treasury, and to hold gold equivalent to two-fifths of its capital as a reserve. The Treasury handed to the banks Paper Money Exchange Bonds bearing 6 per cent interest in return for the notes deposited with it, and the banks were then permitted to issue their own notes redeemable in gold up to the amount of the security which they possessed. In this way it was expected that part of the Government's inconvertible note issue would be replaced by notes convertible into gold, and that effective banking machinery to serve the needs of the new economic system would be brought into being. The operations of these banks, it was also hoped, would lead to a fall in the rate of interest which, since 1868, had apparently ranged between 13 and 14 per cent per annum.¹

These expectations were not realized. Only four national banks were established under these regulations, the first and fifth in 1873 and the second (which was a converted Yokohama Exchange Company controlled by Mitsui) and the fourth in 1874. Their actual note issue never exceeded 2,300,000 yen. The reasons for the failure of this experiment are not difficult to discover. The relatively low rate of interest paid on the Government bonds, which the banks received in exchange for the Government paper money deposited with the Treasury, made an investment of this kind unprofitable. Further, the banks found difficulty in keeping their notes in circulation. Since these notes were convertible into specie, whereas the Government paper money of the same face value was at a discount, merchants who had to pay for imports naturally found it profitable to present the bank notes at the issuing bank and so to obtain gold for their foreign payments. In this way the national banks were drained of their reserves.

In 1877, as we have seen, the hereditary pensions of the privileged classes were commuted for public bonds. "Now this class, beyond the functions which had appertained to it under the régime which had passed away, was ignorant of the ordinary means of gaining a livelihood, and now being suddenly released from these functions, was greatly in danger of falling into a state of indigence and perhaps into pauperism, unless

¹ Rates charged by Mitsui on commercial loans of 10,000 yen and over (S. Okuma's Report).

some calling could be found for its members. The Government consequently, with the object of finding a means by which the military class could turn their public debt bonds to account in obtaining a livelihood, and moved also by the want of circulating capital in the country and the general tightness of money, adopted a plan calculated to confer a double benefit, the principle of which was the establishment of national banks by the military class on the security of the public bonds held by them."¹ It should be added that the very existence of the new Government might have been endangered if the military class had been antagonized by the financial settlement which the Government had enforced on them. Because of the relatively low rate of interest on the bonds (7 per cent) and of the large volume that had been issued, there was every likelihood that they would depreciate in value. Indeed, even the bonds issued in 1874, when the commutation was on a voluntary basis, changed hands at a discount of from 40 to 50 per cent a year or two later.²

So the National Bank Regulations were revised, and from 1876 onwards bank notes, within a limit of 34 million yen, could be issued by national banks against the deposit with the Treasury of Government bonds equal to 80 per cent of their capital. Instead of a specie reserve, moreover, only a currency reserve was now required. Since the currency was Government paper money, the bank notes thus lost their characteristic of convertibility. Banking now seemed, however, to offer good prospects to the holders of the pension bonds. Between 1876 and 1880 148 new national banks were founded, and at the end of this period the limit set by the Government on the total issue had been reached. The largest of these banks was the Fifteenth Bank, established in 1877 with a capital of 18 million yen by a group of nobles. As its main function at this time was to lend the State 15 million yen towards the expenses of suppressing the Satsuma Rebellion, it cannot have played an important part in financing trade and industry. This seems to have been true of the majority of the banks. Formed by men without business experience, they were in general badly managed, and most of the real banking business of the country was conducted either by foreign banks or by those native institutions which had been established by the mercantile class before the amended regulations of 1876. The large note issues made by the banks, however, contributed substantially to the inflationary movement which began with the Government's own issue of 27 million yen of paper money in 1877. In June of the previous year the total issue of Government and bank notes amounted to just over 95 million yen; by the end of 1878 the volume had risen to over 150 million yen. State indebtedness had also grown—from

¹ S. Okuma's Report.

² *The Currency of Japan*, p. 141.

55 million yen in June 1876 to 254 million yen in June 1878. The greater part of this increase had, of course, been occasioned by the pension bond issue and by the loan from the Fifteenth Bank already mentioned. But in addition an Industrial Works Loan of 12½ million yen was raised in 1878 to provide for railway construction and the improvement of harbours, roads and bridges.

All the symptoms of a violent inflation now showed themselves. General prices rose rapidly, and the price of rice, by far the most important commodity, was doubled between 1877 and 1880. Specie left the country. The rate of interest rose and Government bonds fell in price. The silver yen, which became legal tender throughout the country in 1878 when a bi-metallic standard was officially adopted, rose in terms of paper money, and by 1881 1 yen of silver was equivalent to 1 yen 80 sen of paper. The depreciation of the notes was accompanied by frequent and violent fluctuations in their value in terms of silver, and it was not uncommon for a rise or fall of 10 per cent to take place in the course of a single day. The profit inflation which accompanied these financial disturbances gave a temporary stimulus to certain branches of industry. Enterprises in many sections of manufacture and mining were newly established or were re-organized and expanded. In particular, the farmers are said to have benefited greatly.¹ While the burden of their debts and taxes payable in paper money remained constant, their money receipts from sales of rice and silk were augmented. "New farm houses sprang up in every province; new clothes and ornaments were freely purchased; landed property came into great demand . . . and in general everybody rejoiced in hope and a sense of prosperity."²

The Government was not ignorant of the dangers of this inflationary boom. The cost of living was steadily rising, and the exchange fluctuations made foreign trading exceptionally hazardous. The foreign merchant class was loud in its complaints, declaring that the Japanese dealers repudiated their contracts when price changes made the terms unfavourable to them. In 1879 and 1880 the State tried to check the depreciation of notes by disposing of part of its reserve of silver through Mitsui and certain of the national banks, and by cancelling the notes so acquired. Its own issue of paper money fell in consequence of this step by some 12 million yen between 1879 and 1880, although the circulation of bank notes rose by about 5 million yen in the same period. Furthermore, the Government tried to improve its budgetary position by increasing taxation; but it was not until October 1881 when Count (later Prince) Matsukata was

¹ *The Currency of Japan*, p. 271.

² *U.S. Consular Reports*, Vol. XIX, No. 68, p. 655.

appointed Minister of Finance that the financial situation was finally brought under control. The story of the establishment of a sound budgetary and financial system, however, belongs to the next chapter in Japanese history. On the whole, in view of the enormous difficulties that faced the new Government—both those inherited from Tokugawa and those inseparable from the consolidation of the new régime—the Government's record can scarcely be condemned. Most of the financial troubles of the period were the consequence of events beyond the Government's control rather than of mistakes of policy. Even the unsuccessful experiment in national banking was determined by the peculiar conditions of the time, and chaotic as the situation appeared in 1881, only a few years of resolute administration were required before stability was established.

Japan, shaken by the repeated political and financial crises, gave at this time little promise of her future development, save in the determined way in which her leaders faced their difficulties. Even some of the more prominent Japanese were pessimistic. The foreigners in Japan contemplated with complacency the mediocrity of achievement which the future promised. "Wealthy we do not think it [Japan] will ever become: the advantages conferred by Nature, with the exception of the climate, and the love of indolence and pleasure of the people themselves forbid it. The Japanese are a happy race, and being content with little are not likely to achieve much."¹ Clearly Japan could not expect to rival the West in the realms of high finance. When he considered the unsuccessful banking experiments of the seventies, a contemporary foreign resident found an unflattering explanation of their failure. "The national banking system of Japan is but another example of the futility of trying to transfer Western growth to an Oriental habitat. In this part of the world principles, established and recognized in the West, appear to lose whatever virtue and vitality they originally possessed and to tend fatally towards weediness and corruption."²

¹ *The Currency of Japan*, p. 121.

² *Ibid.*, p. 112.

Chapter III

Financial Foundations, 1881-1914

THE last two decades of the nineteenth century were noteworthy for the creation of a stable monetary system which, in spite of many difficulties, was able to withstand the stresses of the Russo-Japanese War. During the seventies Japanese finances had been disturbed by the political troubles incidental to the Restoration, and the banking experiments of that period yielded results that were hardly satisfactory. With the appointment of Count (later Prince) Matsukata as Minister of Finance in 1881 a determined and successful attempt was made to introduce order into the chaotic financial situation. It was decided to abandon the experiment in national banking, to establish a central banking system on the European model, to balance the budget and to restore parity between the silver yen and the notes.

In the first place reforms were effected in the system of land taxation, and increased taxes were levied on *saké* and tobacco.¹ Economies in administration were achieved; grants for public works and private enterprises ceased; and many Government factories were sold. A sinking fund was instituted to provide for the redemption of the public debt, and in consequence of this and of successful efforts to balance revenue and expenditure, the public debt which had stood at 245 million yen in 1880 was only 5 million more ten years later when the national income and the taxable capacity of the country had considerably risen. A marked reduction was effected in the service charge on the debt. In 1880 the Government had paid rates of interest ranging from 7 to 10 per cent even on short loans. In 1885 it was possible to raise a foreign loan for building the Nakasendo Railway at 6 per cent, and in 1886 all public bonds carrying interest over 6 per cent were redeemed by a 5 per cent conversion issue. In the same year the Government began the practice of drawing up regular annual budgets. Thus, in a very short time the disorderly state of the public finances had been remedied.

Japan's newly-found financial strength was tested in the Sino-Japanese War of 1894-95. On the eve of that war annual public expenditure was

¹ In 1875-76 the total tax revenue was 57,800,000 yen, of which 50,000,000 yen came from the land tax; by 1883-84 the tax revenue was 69,200,000 yen, of which 39,000,000 came from the land tax. See A. Andreades, *Les Finances de l'Empire Japonais et leur Evolution*, p. 50 and *passim*.

about 80 million yen and was completely covered by revenue from taxes and other non-loan receipts. The war expenditure amounted to about 200 million yen, and this was met almost entirely from internal bond issues (117 million yen), appropriations from surplus accounts, revenues from occupied territories and part of the indemnity received from China. There was no increase in taxation and the net addition to the national debt was relatively small.¹ As a result of the war Japan was able to annex Formosa and the Pescadores, to secure an indemnity of 366 million yen, to bring the régime of capitulations to an end and with it the restrictions on her right to direct her own tariff policy. This last result was signalled in a number of treaties with foreign Powers signed in 1899. But her victory brought her into direct rivalry with Russia in Northern Asia, and she was obliged to undertake a burdensome policy of armament. The development of Formosa, moreover, involved the granting of substantial annual subsidies. In consequence, annual State expenditure rose from about 80 million yen in the early nineties to between 250 and 293 million yen in the fiscal years 1900-04. The greater part of this increase was absorbed by the Army and Navy. To meet these new expenses the Government instituted national monopolies of tobacco and camphor from which a large revenue was subsequently derived, and it greatly increased existing taxes, especially the *sakē*, income, business and land taxes.

To cover the rising expenditure it was also necessary to raise loans both at home and abroad. In consequence the national debt rose from 207 million yen in December 1894 to 435 million yen in December 1903. These figures do not cover loans raised to provide capital for the State railways. If these are included, the total national debt in 1903 amounted to 539 million yen, of which 98 million yen had been raised abroad. Although some of this money had been used for public works of a revenue-earning character, the greater part of the loans had been raised for financing war-preparation.

The war with Russia cost the State about 1,500 million yen, which was covered mainly by foreign borrowing, although there was an increase in taxation and domestic bond issues. By December 1907 the aggregate national debt reached 2,244 million yen (including the railway and iron works debts) and of this more than half was foreign debt. Thus between 1894 and 1907 the national debt had increased tenfold. The territorial acquisitions that resulted from the war imposed additional burdens on her finances. She had to spend money on the development of Korea, the

¹ A. Andreades, *op. cit.*, pp. 51-60; and Foreign Affairs Association of Japan, *A History of Japanese Finance*, pp. 8-10.

Kwantung Peninsula and South Manchuria; while fear of Russia still obliged her to add to her expenditure on armaments. The annual public expenditure, therefore, continued to increase, and in the years just before the Great War it amounted to nearly 600 million yen, more than twice that of the early years of the century. But the national income of the country was growing, and Japan was able to meet this expenditure out of taxation. The increased burdens imposed at the time of the Russian War, however, had to be maintained during the subsequent period. For instance, the land tax which in 1899 had been raised from 2½ per cent to 5 per cent for urban sites and 3·3 per cent for rural sites rose again in 1905 and later reached 11½ per cent on the most highly taxed sites.

ORDINARY REVENUE¹

(in thousand million yen)

| | 1893-94 | 1903-04 | 1906-07 |
|---|---------|---------|---------|
| Land Tax | 38·8 | 46·9 | 85·6 |
| Income Tax | 1·2 | 8·2 | 21·8 |
| Patent Fees | — | 7·0 | 19·4 |
| Drink Excise | 16·7 | 53·1 | 59·2 |
| Shoyu Excise | 1·3 | 3·5 | 5·3 |
| Sugar Excise | — | 6·9 | 16·8 |
| Customs Duties | 5·1 | 17·4 | 31·8 |
| Stamp Duties | 0·8 | 14·2 | 27·4 |
| Receipts from Public Undertakings and State Property | 11·6 | 55·7 | 104·7 |
| Miscellaneous Receipts | 10·3 | 11·5 | 20·5 |
| Total | 85·8 | 224·4 | 392·5 |

If the amount of the national debt did not increase after 1906,² its composition altered very considerably. Military success had raised Japan's credit-standing, and she was able in the years before 1914 to float a number of foreign loans for conversion purposes. Part of the proceeds of these loans was used to repay domestic debt raised at a higher rate of interest. So in 1914, out of a total national debt of 1,832 million yen (excluding the railway debt), 1,524 was foreign debt, whereas in 1907 when the total debt was 2,064 million yen, the shares were much more

¹ A. Andreades, *op. cit.*, p. 79; also, *The Financial and Economic Annual of Japan* (various issues), which is the source used for most of the statistical data on public finance.

² That is if the State Railway Debt is excluded.

evenly balanced. The State Railway Debt, which falls into a special category, has been excluded from these figures. In 1906 the Government, which had previously owned only a few lines, began to execute its plan of nationalizing the railway system, and it borrowed money for this purpose. In 1914 the amount of railway debt outstanding was 729 million yen, compared with 117 million yen in 1906.

The three main features in the history of Japanese public finances during the twenty years before the Great War were, first, the large increase in annual expenditure, secondly the growth of the national debt, and thirdly, the large import of foreign capital. These were the necessary consequence of Japan's policy of developing her resources in the interests of national power; for the increased expenditure and borrowing were incurred mainly in connection with war, armaments, colonial exploitation and the establishment of industries of "national importance." The growth in her productivity had greatly increased her tax revenue, and her success in raising loans abroad at relatively low rates showed that by this time foreign investors were confident of her future. The rapid pursuit of ambitious political objectives, however, had strained her financial strength, and as by 1914 she had nearly reached the limit of her foreign credit, it seemed that her expansionist programme would have to be executed more cautiously.

We must now turn to the history of banking and currency during this period. In 1881 the chief financial objectives were the redemption of the inconvertible paper money, the legacy of the seventies, and the accumulation of a specie reserve which could serve as a backing for a new issue of convertible notes. With these ends in view Count Matsukata, in a memorandum of March 1882, advised the immediate establishment of a central bank modelled on those of European countries.¹ He argued in this document that the evils from which the country was suffering were the excess issue and unequal distribution of the currency, the shortage of liquid capital and the depletion of the specie reserves. He criticized the national banks for their lack of co-operation with one another, and he declared that a central bank was needed to co-ordinate the financial activities of the State. Its formation, he said, would help to equalize rates of interest in different parts of the country; hoarding would cease; and, as the operations of the Treasury would be entrusted to the Bank, the tightness of money at tax-collecting time would be mitigated. The immediate task of the Bank, however, was to redeem the inconvertible notes and to provide a unified note issue backed by adequate specie reserves.

The regulations of the Bank of Japan, as later drawn up, provided

¹ See M. Matsukata, *Report on the Adoption of the Gold Standard in Japan*, *passim*.

that it was to issue its notes only against a specie reserve, except for a fiduciary issue on which a tax of $1\frac{1}{4}$ per cent was to be paid.¹ In times of crisis the Bank, with the permission of the Minister of Finance, was empowered to increase its fiduciary issue on the payment of a tax of not less than 5 per cent on the amount of the increased issue. At the same time,

NOTE ISSUES

(in million yen)

| End of Year | Government Paper Money | National Bank Notes | Bank of Japan Notes |
|-------------|---------------------------|------------------------|------------------------|
| 1881 | 118·9 | 34·0 | — |
| 1885 | 93·4 | 30·2 | 4·0 |
| 1890 | 40·1 | 26·4 | 102·9 |
| 1895 | 15·7 | 22·3 | 110·5 |
| 1900 | 5·1 | 1·6 | 179·8 |

provision was made for the withdrawal of the inconvertible Government notes and of the national bank notes, and the regulations governing the Bank's own note issue were suspended until parity between the notes and silver had been reached. Funds obtained from the sale of Government factories were used for the purchase of specie, and part of the budget surplus after 1881 was used for acquiring foreign bills of exchange or for the redemption of Government notes. The national banks were required to transfer their reserves to the Bank of Japan and to make annual payments into a fund which was to be employed for the redemption of their notes. The retirement of the inconvertible paper money was rapidly brought about, and by 1886 specie payments were begun. Thus, after only four or five years the paper money, which at the beginning of the period was from 70 to 80 per cent depreciated in terms of silver, had been brought to par. The Government paper money was finally redeemed in 1899 and the last national bank note in 1904. A law of 1896 provided that national banks on the expiry of their charters were to be dissolved, and by the end of the century 132 of them had been transformed into private banks, while the rest (21 in number) had been dissolved.

¹ The following account of Japan's banking history is based largely on: *United States' National Monetary Commission* (1910), Vol. XVIII; M. Takaki, *The History of Japanese Paper Currency*; M. Matsukata, *Report on Post-Bellum Financial Administration in Japan*; Japanese Department of Finance, *A Brief Outline of the Financial System of Japan* (1905); U.S. Department of Commerce, *Japanese Banking*.

The deliberate contraction of the currency during the early eighties was naturally accompanied by a fall in prices and by a trade depression; but the deflationary policy was robbed of some of its less agreeable consequences by the contemporaneous depreciation of silver both in terms of gold and of commodities. Undoubtedly this depreciation assisted the Japanese Government in restoring and maintaining its specie payments. From the later years of the decade prices turned sharply upwards, and the *Oriental Economist's* index of wholesale prices (base = 1873) which stood at 97 in 1886 had risen to 156 by 1897. Meanwhile rates of exchange on gold standard countries with which Japan was conducting two-thirds of her trade were highly unstable. When the Indian currency reform plan was put into operation in 1893, Japan decided to adopt the gold standard at the earliest favourable opportunity. The transition from silver to gold was facilitated by the receipt of the indemnity from China after the war of 1894-95. Arrangements were made to have this indemnity (230 million taels or 38 million pounds sterling) paid in sterling instead of in taels. Part of the sum was brought home in gold, and part was kept on deposit in London or invested in British securities and maintained as a foreign exchange reserve. The adoption of the gold standard formally took place in 1897.

Meanwhile, Count Matsukata was steadily putting into operation a banking principle which he had enunciated in his memorandum of 1882. This principle was that a healthy financial system required the existence of banks with specialized functions, which he defined as the provision of long-term investment in industry and agriculture, the mobilization of the savings of the poorer classes, the handling of foreign exchange transactions and the conduct of domestic commercial business. The most important of these specialized banks, the Yokohama Specie Bank, had been founded in 1880. It was not until 1887, however, when its regulations were revised, that it entered upon its career as the chief foreign exchange bank in the country. Like the Bank of Japan, the Specie Bank from the beginning was closely supervised by the Government. The State provided one-third of its initial capital and the appointment of its President and Vice-President required the authorization of the Minister of Finance. The Specie Bank was entrusted with funds from the Treasury Reserve Fund to enable it to deal in foreign bills of exchange, and when this support was withdrawn in 1890 the Bank of Japan was authorized to advance to it a permanent loan (later fixed at 20 million yen) at the rate of 2 per cent. Furthermore, large quantities of the Specie Bank's foreign bills were discounted by the central bank at a specially low rate, and these bills from the first constituted the bulk of the central bank's holdings. Indeed, the

Bank of Japan was during this period the only large outlet for the Specie Bank's paper, and for many years constituted the only outlet for it.

After the stabilization of the currency, and the establishment of a central bank and a foreign exchange bank, the next step, in accordance with the principle that Count Matsukata had laid down, was to create financial organs for providing long-term loans. There was an urgent need for such institutions, for a well-to-do middle class, prepared to invest in industrial securities, scarcely existed. What were required were institutions formed for the purpose of mobilizing the savings of the community through the medium of bank debentures guaranteed by the Government. In this way resources could be collected and directed towards enterprise. It was not possible to proceed with this plan during the eighties, for Government bonds then stood at a considerable discount. But by the end of the Sino-Japanese War in 1895 Government credit had improved sufficiently to make the scheme practicable. So, by a law passed in 1896, the Hypothec Bank of Japan was set up, modelled on the *Crédit Foncier* of France, with a capital of 10 million yen. This bank was empowered to make loans, redeemable by annual instalments within 50 years, on the security of immovable property, such as paddy fields, upland fields, salt fields, forests and fishing waters and rights. It was also permitted to make advances without security to public authorities, co-operative societies and fishery guilds. In order to obtain funds, it was authorized to issue debentures to an amount not exceeding ten times (later fifteen times) its paid-up capital. It could also accept deposits which it had to employ in the purchase of national bonds and bills of exchange. For the first ten years of its life the Government guaranteed its dividends at the rate of 5 per cent. At the same time 46 Agricultural and Industrial Banks were established, one in each prefecture. Their business was similar to that of the Hypothec Bank, to which they acted as local advisory bodies. They were permitted to raise funds to the extent of five times their paid-up capital, and they were accustomed to resort to the Hypothec Bank for other advances. The latter, indeed, acted as a kind of central bank for these local institutions. It supplied them with funds by taking up their debentures, and it employed them as agents in making advances to its clients. The Government exercised close supervision over the business of these banks and granted them financial help. Apart from the guarantee of dividends already mentioned, it advanced a loan of ten million yen to the prefectural authorities to enable them to subscribe to shares in the Agricultural and Industrial Banks, and in 1898 it used 3½ million yen of the Chinese Indemnity for the purchase of the Hypothec Bank's debentures.

The next stage in the realization of Matsukata's systematic programme

was the creation of a bank for the purpose of providing long-term loans to industry on the security of moveable property, including bonds and shares. So, by a law passed in 1900, the Industrial Bank of Japan (*Nippon Kogyo Ginko*) was set up, modelled on the *Crédit Mobilier*. It was empowered to raise funds by issuing debentures up to ten times its paid-up capital, and its shareholders received a Government guarantee of dividends similar to that given to the Hypothec Bank. In the early days of its operation the Bank's loans were made for the most part to firms in the newly established large-scale industries, such as the public utilities and the shipbuilding, iron and steel, chemical and machine-making trades. In this way it served to assist the Government's policy of developing the new forms of industrial activities that were believed to be necessary for political as well as for economic reasons. The term of these loans was usually five years, although in the case of advances on ships repayment could be effected in annual instalments over a period of fifteen years. One very important function assumed by this bank was that of providing a channel for foreign investment in Japan. A substantial part of its capital was held by foreigners, and during the first eleven years of its existence some 350 million yen were raised abroad by the sale in foreign capital markets either of its own debentures or of those of municipalities or of public undertakings with which it was associated. Among the latter the South Manchuria Railway Company had an important place, and the bank guaranteed and sold several issues of S.M.R. sterling debentures in London between 1907 and 1911. Its financial relations with this company were a precursor of its later activities in the financing of Japanese penetration on the Continent of Asia.

Japan's colonial expansion after the war with China meant that the original pattern of Government-controlled special banks had to be extended. The acquisition of Formosa (Taiwan) by the Treaty of Shimonoseki led to the establishment of the Bank of Taiwan in 1899. Its functions in that colony were in many respects similar to those of the central bank in Japan Proper, since it had the right of note issue and was entrusted with the colonial revenues. It also undertook foreign exchange business, and later became responsible for financing a substantial proportion of Japan's trade with Formosa and the South Seas. The Bank of Japan maintained close connections with this bank, and provided it with advances at low rates of interest. After the Russo-Japanese War the First Bank (*Dai Ichi Ginko*) acted as a note-issuing central bank in Korea (Chosen). In 1909, however, it was replaced in this capacity by the Bank of Korea, which took over the note issue and most of the branches of the First Bank. After the annexation of Korea a year later the

new institution came to be known as the Bank of Chosen. It was given a monopoly of the note issue in Chosen; it handled the Government account; and it also acted as an ordinary commercial and foreign exchange bank in that colony and in the Kwantung Peninsular.

These two note-issuing banks should be distinguished from another group of colonial banks founded for the provision of long-period loans. The Hokkaido Colonial Bank was established in 1899 to provide finance for the colonization and development of the northern island. In Korea a number of local hypothec banks were set up in 1906 to make long-period loans to industrial and agricultural enterprises, and it was these banks which in 1918 were merged to form the Chosen Industrial Bank. Another industrial bank in which the Government was interested was the Oriental Development Company established in 1908. Its functions were to finance industrial enterprise both in Korea and in Manchuria.

All these special banks were capitalized in part by the Government and the Imperial Household, and were subjected to strict official control. They were closely linked with one another through the granting of mutual financial help and through co-operative investment in enterprises of national importance both at home and on the Continent of Asia. Some of these activities will be discussed later on. Here it is sufficient to emphasize that they were all instruments of a national purpose which has changed little since their formation was originally contemplated. From the beginning, moreover, they had close financial connections not merely with the Government, but also with the great financial institutions of the *zaibatsu*, themselves in part the agents of national policy.¹

Before concluding this account of Government-supervised banking institutions, we must refer to another most important component of Japan's financial machinery, namely the Deposits Bureau of the Ministry of Finance. To this Bureau, which was founded in 1877, were entrusted postal savings besides postal transfer savings and certain other funds belonging to the Government. As in other countries the savings were provided by numerous small depositors, especially farmers. In 1885 there were about 300,000 depositors and about 9 million yen of deposits; in 1896 1½ million depositors and 28 million yen of deposits; and in 1914 12 million depositors and 189 million yen of deposits. The significance of the Bureau lies in the fact that it provided a channel for directing the savings of the people towards enterprises sponsored by the State. The Bureau invested its funds mainly in the bonds and debentures issued by the Government and the municipal and prefectural authorities, and in the debentures of the Special Banks. It also made extensive loans to semi-

¹ See Chap. VIII.

official concerns, such as the public utilities, the Oriental Development Company and other colonial enterprises, and thus the savings of the poor were canalized to furnish capital for modern large-scale enterprise and for the exploitation of Japanese territories overseas.

Japan's financial development in the period now under review was by no means limited to these official or semi-official institutions. Indeed the deliberately specialized functions which had been given to these banks left opportunities for the growth of banks of another kind. Some of the old money-lending and exchange houses had been reorganized shortly after the Restoration, as we have seen, and before the end of the century a few of them developed into flourishing commercial banks of the modern type. After the revision of the National Bank Regulations which provided for the gradual withdrawal of the note issue, many national banks were re-formed as private commercial banks. During the nineties the number of these private banks grew rapidly, along with the industrial and commercial development of the period. By 1901 there were 2,359 separate banking concerns in the country with aggregate deposits of 516 million yen. Many of them, however, were very small; for instance 940 had a capital of less than 100,000 yen, and only 78 had a capital of over 1 million yen. It was recognized in official quarters that a system composed of a multitude of very small banks unrelated to one another was likely to be unstable. So in 1901 it was decreed that joint stock banks should have a capital of at least 500,000 yen and private banks a capital of 250,000 yen. This encouraged the consolidation of the banks, and by the end of 1913 their number had fallen to 2,158, inclusive of 648 savings banks. But, in spite of the increase in the size of the banks during this period, 550 of them still had a capital of under 100,000 yen, and four-fifths of them a capital of 500,000 yen or under. Most of the banks worked without branches; in 1913 the average number of branches to each head office was only 1.5.

For an explanation of the rather peculiar system of banking which had been built up in the years before the Great War we have to refer both to the nature of Japan's economy and also to the State's economic policy. The special banks were essentially instruments of the Government. In the first place the Bank of Japan and the central colonial banks had the function of reforming and controlling the currency. Secondly, as Japan was engaged in building up powerful armaments for which she needed large imports of war materials and also equipment for the industries that were necessary for national power, the financing of foreign trade was of great political importance. Hence the creation of the Yokohama Specie Bank. Thirdly, the absence of a large investing class in Japan resulted in

the formation of a group of special investment banks charged with the duty of financing large-scale enterprises of national importance both in Japan and on the Continent. Next the character of the ordinary commercial banks was determined mainly by the structure of Japanese industry. On the one hand, there were numerous small industrial and commercial enterprises which were growing rapidly at this time, and were in need both of short- and long-term capital. Small local independent banks rose to cater for these needs. On the other hand, large city banks, affiliated to the great business houses with a wide range of commercial and industrial activities and with close relations with the State, grew up to mobilize part of the country's capital and to direct it into the enterprises controlled by those houses. Finally, the Deposits Bureau and the private savings banks were organized to collect the savings of the poor and to provide a demand for the bonds issued by the Government or by concerns in which it was especially interested at a time when the State's financial position was weak. The operations of the financial system have been extremely susceptible to political influence. In the case of the official banks and the Treasury Deposits Bureau this need not be insisted upon. It is true, however, even of the larger banks owned by the *zaibatsu* because of the association of those houses with the Government and the close relationship which they have had with the political leaders.

It is only by observing how institutions work that their true significance can be realized, and at this point we shall survey the operations of the banking system before the Great War. In the first place, the central bank carried out functions much more restricted than those of the central banks in most European countries. It failed, for example, to act as a bankers' bank in the sense commonly understood abroad. Many of the larger ordinary banks held deposits at the Bank of Japan, but only such as were needed for clearing purposes, and it could not be said that the banking reserves of the country were centralized through the medium of that institution. Nor did the Bank of Japan furnish the money market with funds in ordinary times. In periods of financial emergency it was compelled by the Government to make heavy advances to the ordinary banks; but its slender connections with them in normal times meant that it was unable to exercise control over their policy, even though it might be obliged to come to their aid when that policy threatened their solvency. In times of stringency the ordinary banks resorted to the central institution for the re-discount of their bills; but the bank-rate was in no sense a controlling rate. Indeed the bank-rate commonly followed the market rate and was in any case of slight significance because of the Bank's slender connections with the market. Apart from its functions in con-

nection with the note issue, the Bank's main activities were of two kinds. The first of these related to foreign exchange. In the years before 1914 from 40 to 50 per cent of its total loans were made on foreign bills of exchange, and of this amount about four-fifths went to the Yokohama Specie Bank.¹ The central bank was obliged to give this support to the exchange bank because, in the absence of an organized discount market, the funds of the commercial banks were not available for this purpose; while at the same time, as we have seen, the problem of international payments was of extreme urgency for Japan. The other main activity of the Bank was the provision of financial aid to the Treasury and official institutions. In addition to the heavy loans which it made, often at a low rate of interest, to the special banks, in times of emergency it invested a large part of its resources in Government bonds. Indeed, its discount rate and its Open Market Policy were much more closely related to the requirements of the Treasury than to the control of the money market. The lack of close contact between the Bank and the ordinary commercial banks can also be explained by reference to the nature of the leading banks themselves. Many of them were part of great business enterprises (Mitsui, Mitsubishi, Sumitomo and Yasuda) with wide ramifications, and the great financial resources of these groups enabled the affiliated banks to remain independent of the central institution and to pursue an autonomous policy.

The principle of specialization, as formulated by Matsukata and embodied in the structure which he created, broke down in practice. Thus, the division of function between commercial banking and industrial banking was not fully realized. The commercial banks obtained the bulk of their resources from fixed deposits, and a large part of their assets consisted of industrial securities, long-period loans to industrial concerns and advances on real estate and personal property. Many a small country bank was in effect a partner in a very few industrial or agricultural businesses, and even the great city banks tied up their resources in investments in the industrial groups of which they formed part. The call funds of these banks, in the absence of an organized bill market, were lent almost entirely to the special banks, particularly to the Yokohama Specie Bank. Thus, not merely was there no clear division of function in practice between the commercial banks on the one hand and the Industrial Bank of Japan and the Hypothec Bank on the other, but the absence of a short-loan market made the commercial banks exceptionally dependent on a very few special banks in acquiring liquid assets.

¹ S. Furuya, *Japan's Foreign Exchange and Her Balance of International Payments*, p. 160.

This situation was inevitable in the circumstances of the time. The ordinary banks could not develop deposit banking of the English type in a country which was unsuited to a cheque currency and where no large supplies of first-class commercial bills were available. The concentration of the majority of large-scale enterprises in the hands of the Government or a few great family businesses, which scarcely ever made public issues of shares, produced a lack of easily marketable industrial securities. The Japanese public faced with this position in the capital market and having no tradition of industrial investment, preferred to use their savings for the purchase of special bank debentures or for making fixed deposits at the ordinary banks, and these resources were for the most part invested by the banks in industrial concerns. This increased the financial power of the great business groups, since each of them through the bank under its control could easily obtain funds for its enterprises. The Government realized the dangers inherent in a commercial banking system working with illiquid assets and with loans narrowly spread; but rapid industrial development along lines considered necessary for national power could scarcely have been fostered without some such method of mobilizing and canalizing the country's scanty supply of savings. Furthermore, the Government was dependent upon the big financial groups as well as on the special banks for assistance in times of national emergency. The absorption of its bonds issued at the time of the wars of 1894-95 and 1904-05 was only made possible by the creation of syndicates for this purpose by the Mitsui, Mitsubishi and Yasuda Banks and by the Yokohama Specie Bank.

We have seen that the connections between the Bank of Japan and the Yokohama Specie Bank were necessarily intimate in the period before 1914 because of the difficulty in preserving equilibrium in the balance of payments. The increase in loan-financed expenditure during the war against Russia caused Japanese prices to move out of line with those in the outside world; while the armament policy necessitated heavy foreign payments for imported munitions. Further, Japan's territorial gains on the Continent obliged her to make considerable investments in the development of those regions. The money market, in its undeveloped condition, was not able to attract short funds from abroad quickly in times of stringency, and the gold reserve was exiguous. Thus every effort had to be made to increase the supply of export bills and to guard against movements which might force the country off the gold standard and so render her unattractive to the foreign investor. But the inability of the central bank to control the credit policies of the ordinary banks left the authorities without an effective weapon for protecting the gold reserve.

That part of the Chinese indemnity which had been kept in London as an exchange fund was replenished from time to time from the proceeds of foreign loans. These sterling balances were counted as part of the specie reserve against the note issue, and thus Japan, actually if not ostensibly, came to possess a variety of the gold exchange standard, in common with many of the weaker financial countries. The maintenance of these foreign balances at an adequate level was a source of considerable anxiety in the decade preceding 1914. Between December 1905 and December 1914 the gold reserve at home and abroad fell from 479 million yen to 342 million yen, and a Japanese Minister of Finance has testified to the growing anxiety felt by the responsible authorities in consequence of this decline.¹ These financial troubles were a measure of the strain which the rapid growth of a modern industrial system accompanied by territorial expansion was imposing on a poor country. The expansionist policy was, in other words, endangering financial stability; but to that policy Japan was irrevocably committed. In these circumstances, it is natural that the Bank of Japan and the Government should have strained every effort to encourage the export trade and to support the Yokohama Specie Bank which occupied a key position in Japan's struggle for power.

¹ J. Inouye, *Problems of the Japanese Exchange, 1914-1926*, Chap. I. These figures include the specie holdings of the Government as well as of the Bank of Japan.

Chapter IV

Agriculture, Raw Silk, and the Textile Industries, 1881-1914

THE forces of change which had been released by the Restoration and strengthened by the deliberate policy of the Meiji Government affected in some measure every branch of agricultural, industrial and commercial life. But it would be wrong to imagine that all parts of the Japanese economy were brought quickly under the direct influence of the West. For many years after 1868, and even up to the end of our period (1937), the changes in many branches of economic life were slow and often imperceptible. Some of the older industries, as we have seen, were damaged by the impact of foreign trade, and most of them had to adapt themselves in some degree to the new circumstances. Yet this did not prevent a substantial section of Japanese industry from preserving in essence its former character, nor indeed from developing upon lines not vastly different from those of the Tokugawa period. The preservation of the familiar, however, seldom attracts the attention excited by the appearance of the novel and the strange. It is natural therefore that what observers in the latter decades of the nineteenth century were inclined to stress was the rise of new industries and new forms of organization rather than the persistence of the old. These innovations were, in part, the result of the appearance of new wants among the Japanese public in consequence of Western influences. But they can also be attributed to the governmental policy of creating foreign-style industries and institutions such as were considered necessary for national power. The Japanese economy thus came to possess a curious dual character. Its foundations were formed by a peasant agriculture and a variety of small-scale manufacturing industries, many of which were peculiar to Japan. On these foundations was erected a superstructure of large-scale enterprise, a part of which owed its existence to political decisions. Much of the interest which attaches to modern Japanese history is associated with the comparative developments of these two divisions in her economy. Though distinct, they impinge upon one another at many points, and where the interests bound up with them come into conflict there results a social and political strain which has been the chief source of instability in modern Japan.¹

¹ Cf. G. E. Hubbard, *Eastern Industrialization and Its Effect on the West* (2nd edition), pp. 35-6.

1. *Agriculture*

In the nineteenth century, the distinction between the traditional foundations and the novel superstructure was hardly apparent because the latter was still small and insecure. We have seen that in Tokugawa times some three-fourths of the population consisted of peasants, and in 1872 out of an occupied population of over 19 millions, about 77 per cent were estimated as being engaged in agriculture.¹ As late as 1893 about 84 per cent of the population was still found in places with under 10,000 inhabitants, and while these were not all members of agricultural families, the vast majority of them was engaged in traditional economic activities. Only 6 per cent of the population then lived in towns with 100,000 inhabitants or over.² Even during the middle nineties, when modern industrialism first made a notable advance, the bulk of the increase in population was still confined to the rural communities. Thus, in the period from 1893 to 1898, out of a total increase of population of 3·33 millions, over 2 millions were absorbed by the rural centres. During the next five years, however, the tendency towards urbanization became stronger. Although after the turn of the century the rural population continued to grow slowly, the bulk of the increase in population from then on was concentrated in the towns. Consequently, the proportion of the population found in rural communities (places with under 10,000 persons) had fallen to 72 per cent in 1913, compared with 84 per cent twenty years previously. These figures show that the tendency to urbanization did not become strong until the turn of the century, and that even in 1913 it had not gone far enough to threaten seriously the overwhelming predominance of the rural communities which were still absorbing population.³ This distribution of the people corresponds, as we shall see, with the progress of industrialization.

The large absolute growth in agriculture can be measured in another way. The area of land under rice increased from 2,579,000 cho in 1878 to 2,922,000 thirty years later, and that under the other main cereals also grew substantially. Agriculture, indeed, succeeded in supplying all but a small part of the increased demand for rice that resulted from the rise in population and in consumption per head. It did this only partly by putting fresh land under rice; the source of most of the increase was the improvement in methods and more intensive cultivation.⁴ The expansion

¹ R. Ishii, *op. cit.*, p. 78.

² *Ibid.*, pp. 68 *et seq.*

³ Between 1903 and 1913 the population increased by 6,588,000; towns with 10,000 inhabitants and over absorbed 5,175,000.

⁴ The yield of rice per cho rose from 11·6 koku in the early eighties to about 17·0 koku in the years just before the Great War.

in the production of the chief cereals is shown in the following table:¹

ANNUAL AVERAGE PRODUCTION OF CEREALS

(in 1,000 koku)

| | Rice | Barley | Naked Barley | Wheat |
|---------|--------|--------|--------------|-------|
| 1879-83 | 30,874 | 5,516 | 3,786 | 2,219 |
| 1889-93 | 38,549 | 6,945 | 5,287 | 3,102 |
| 1899-03 | 42,268 | 8,330 | 6,386 | 3,700 |
| 1909-13 | 50,242 | 9,677 | 7,813 | 4,901 |

In the first half of the Meiji era the Government, having freed the peasants from feudal restrictions, concerned itself with encouraging the introduction of new crops and better methods of cultivation. It sent experts abroad to study foreign agricultural systems; it established agricultural schools and colleges; and it provided instructors who travelled round the country giving guidance and information to the farmers.² Some of the innovations which were tried at this time failed to establish themselves. For instance, the attempt to create a sheep-rearing industry in the seventies and early eighties had to be abandoned. New methods of manuring and irrigation had some success, and forms of agricultural credit were introduced. Yet, in essence, agricultural life changed little. Before the Restoration a holding of half a cho (1·225 acres) was reckoned a good average-sized farm, and the holding of a farmer was commonly formed of strips scattered about the lands of the village.³ The small size of the agricultural unit is usually attributed to the concentration of Japanese agriculture on rice crops, which are grown in irrigated fields and require a vast amount of tedious manual labour, especially in the transplanting of seedlings. A contributory cause is undoubtedly to be found in topographical conditions. Because of the hilly nature of the country much of the rice has to be grown in small terraced fields. The abundance of labour and the scarcity of arable land—under 15 per cent of the total area in 1910—also predisposed the Japanese to follow an intensive system of cultivation. These conditions did not change appreciably during the

¹ *The Statistical Year Book of the Empire of Japan.*

² S. Nasu, "Ziele und Ausrichtung der japanischen Agrarpolitik in der Gegenwart," in *Weltwirtschaftliches Archiv*, July, 1937.

³ R. Ishii, *op. cit.*, p. 141.

Meiji era. There was a slight tendency for very small farms to decline in numbers; but even in 1910 well over one-third of the farms had an area of under half a cho, and over two-thirds of one cho or under. The larger farms were found mainly in Northern Japan, especially in Hokkaido which was colonized during the Meiji period and where climatic conditions are very different from those in the main islands. If Hokkaido were excluded from these calculations, the proportion of small farms would be still higher. Thus the typical small holding of cultivated land persisted unchanged.

The system of tenure was subjected to a more striking alteration. In the early years of Meiji the proportion of arable land farmed by tenants, as distinct from peasant proprietors, is supposed to have been about one-fifth. It increased rapidly after the ban on the sales of land had been removed along with other feudal restrictions, and by 1887 it was nearly two-fifths. From then on the proportion grew slowly, and in 1910 it reached 45 per cent. In that year about one-third of the farmers were tenants, two-fifths were peasant proprietors, and the remainder owned part of their land and rented the rest. The rents of the paddy-fields continued to be paid in rice, as previously, and these rents ranged between 25 and 80 per cent of the total crop, the average and median being about 50 per cent. The rents of the upland fields also were frequently paid in produce, although here there was a tendency for money rents to be substituted.¹

As in earlier times, the peasants by no means confined their activities to the production of cereals. Those who lived near the sea coast combined in-shore fishing with agriculture, and this activity increased with the rise in the demands of the increasing population. Further, the peasants continued to produce industrial crops, although in this part of their activities there were some striking changes. The raw cotton used in the manufacture of Japanese clothing had long been produced domestically, and with the growth in the demand for cotton textiles in the seventies and eighties, and under the shelter of a small import duty, the production of this crop expanded. In 1887 it reached a maximum of nearly half a million piculs, and the country was then self-sufficient in this material except for a small import from China. After this date, however, Indian cotton began to replace the home product. In 1896 the Government removed the duty on imported cotton, and by the end of the century the home production had become insignificant. Various other subsidiary industries formerly practised by the peasants were also destroyed by the impact of international trade and new technical methods. For instance, the home production of

¹ R. Ishii, *op. cit.*, pp. 153-8.

lacquer was affected by imports from China; while several manufacturing trades were taken from the peasant household through the rise of specialized producing units which employed more efficient technical methods. Most important of these were the cotton spinning, and to a less extent, the cotton weaving trades. Formerly the women had carded, spun and woven domestically produced cotton for the requirements of their household and for sale to merchants. Spinning was taken from them first by the import of foreign yarns and later by the appearance of Japanese spinning mills. This process had been completed by the nineties, and from then on the weaving activities of the peasant households began to diminish through the rise of specialized weaving sheds. Other traditional peasant trades, however, revived and even expanded. Thus, in certain areas the cultivation of reeds and the manufacture of *tatami*-covers remained a substantial peasant industry; in other districts, the production of paper lanterns, fans and pottery. The greatest development of all occurred in the silk trade. This deserves a fairly detailed treatment, for it provides an illuminating illustration of how an economy adapts itself to changes in demand and technique.

2. *Silk*

Originally, all the processes in the production of raw silk had been conducted in the peasant household. The farmers and their families grew the mulberry trees, reared the silkworms in sheds attached to their houses, and reeled the silk on simple instruments. The product was then woven on handlooms either by weavers situated in towns such as Kyoto or in peasant households in specialized weaving areas. On the opening of the country the industry was at once set the task of meeting a large foreign demand both for silkworm eggs and silk in consequence of the outbreak of silkworm disease in Europe. It was taken up by increased numbers of peasants during the sixties and seventies, and it replaced some of the activities which they had lost. The expansion of the industry was accompanied by incipient changes in organization. One of the main difficulties that confronted a peasant reeling industry was the provision of silk of the uniform quality required for export. The spread of the industry to households without previous experience naturally accentuated this difficulty, and as a means of overcoming it and at the same time of enlarging the output, small specialized reeling mills equipped with improved types of hand and treadle machines were set up during the seventies and were staffed by the daughters of the farmers. During the same decade the Government established a few power-driven filatures equipped with Western machines. In this way reeling began to appear as a separate

industry, although its differentiation from other sections of the trade was not completed for many years.

Between 1868 and 1883 the output of raw silk grew from 278,000 kwan to 457,000 kwan, and exports from 175,000 kwan to 365,000 kwan.¹ The export of eggs, which in the first three years of Meiji amounted in value to half that of the raw silk export, declined absolutely as well as relatively in the later seventies; but there was still a fair export in 1880. After that year, however, it fell rapidly and became insignificant by the end of the decade. Those peasants who had hitherto been concerned mainly with egg raising for export now turned to cocoon production. They were able to effect this transference because the foreign demand for Japanese silk continued to grow. Competition with French and Italian silk was assisted not merely by the improvements in methods of production which lowered Japanese costs, but also by the depreciation of silver which conferred a bounty on Japanese exporters to gold standard countries. From this time onwards the reeling process passed rapidly into the specialized reeling establishments, and machine reeling made a great advance. In 1893 there were 3,203 reeling factories employing more than ten persons each, and of these 2,602 practised machine reeling.² But a great part of the industry was still conducted either in very small specialized establishments or in the household, and in the period 1889-93 well under half of the silk output was filature silk. The filatures themselves were very small; in 1893 only 473 had more than 50 basins; 2,129 had from 10 to 50 basins, and there was a much larger number with under 10 basins.

The next twenty years saw a great expansion both in production and exports, improvements in productive methods in all branches of the trade, a rise in scale in certain branches, and a persistence of the tendency towards vertical disintegration. The growth in output and exports is shown in the table on page 62.

The costs of cocoon raising were reduced by the introduction of new methods of feeding; cocoons of better quality with a higher yield of silk were produced through the greater attention devoted to rearing the silkworms; and in the filatures improved machinery raised the output per basin. There were also a number of minor technical changes, such as

¹ Figures of exports and imports, throughout this book, have been, in general, taken from *Foreign Trade of Japan, A Statistical Survey*, compiled by the *Oriental Economist*.

² Information about the organization, output, number and size of mills, and employment, has, in general, been based on the *Japan Silk Year Book* (various editions).

the introduction of a quicker method of killing the pupa on the completion of the cocoon. A major development of the period was the rise in the importance of the summer-autumn crop of cocoons. In early Meiji times production had been confined to the spring; but gradually the farmers began to produce a summer-autumn crop, which by 1900 amounted to one-third of the total annual output. This lowered costs by enabling the farmers to be more continuously employed in cocoon raising, and it also substantially reduced the capital requirements per unit of output in the filatures. In the sphere of organization the period between 1893 and the Great War was noteworthy for the triumph of the filature over the hand reel. In 1899-1903 the amount of filature silk was just over half the

(in 1000 *kwan*)

| Year | Production | Export |
|--------------------------|------------|--------|
| 1883 | 457 | 365 |
| 1889-93 (annual average) | 1,110 | 662 |
| 1899-03 (annual average) | 1,924 | 1,110 |
| 1909-13 (annual average) | 3,375 | 2,563 |

total (including dupion silk). Up to that time the hand-reel output had continued to grow, though at a much slower rate than filature silk. After 1903 the former ceased to expand, and by 1909-13 the filatures were producing 72 per cent of the total output.

The size of the filatures also increased. During the boom of the middle nineties several large establishments were founded, and in the depression that followed many small firms went out of business. This tendency persisted in the new century and was strengthened during the severe depression that accompanied the American crisis of 1908. By 1913 there were 546 filatures with over a hundred basins, compared with 124 in 1893; while the number of filatures with from 10 to 50 basins had been greatly reduced. In spite of this growing concentration of production in larger establishments, however, the small hand-reeling shop, and even household production, had by no means disappeared. Although in 1913 the hand reels now accounted for only 22 per cent of the output (apart from the dupion production which amounted to 6 per cent of the total), there were still 284,000 hand-reeling establishments with under 10 basins each, and there were many filatures of similar size also. As often happens during a process of mechanization, the industry had developed two distinct branches. The filatures, especially the larger ones, had arisen to cater

for the increased foreign demand for standardized qualities; while the old hand-reeling branch of the industry was left with the task of supplying the needs of domestic weavers.

Another change, which was associated with and was made possible by the rise in the production of uniform silk for abroad, took place in the egg-raising industry. Numerous small producers had flourished in the days when there was a large foreign demand for eggs. But the production of standardized cocoons which the filatures now required was impossible as long as egg production remained with a multitude of independent enterprises. During the nineties, along with the rise of larger filatures, egg production came to be concentrated in fewer hands, and this tendency was encouraged by Government regulation. The number of egg-producers, in consequence, fell from 45,000 in 1895 to 12,000 in 1914. By that time, moreover, the larger reelers were beginning to exercise a greater degree of control over egg production and cocoon raising. For instance, they imported eggs from Europe and China and developed hybrids which they distributed among the silk raisers who supplied them with cocoons. This tendency, however, was in its infancy in the days before the Great War.

The raw silk trade, as we have shown, was an outgrowth of peasant agriculture. In 1914 not merely silk raising but also an important section of the reeling industry was still conducted by peasants or very small-scale producers. Even the filatures were comparatively small establishments, and there were only a few firms owning several plants that could be regarded as large undertakings. These had all risen from small beginnings. For instance, the greatest of them, Katakura and Company, started as a small family concern with 32 reeling basins in 1878, and it only gradually developed into an important business owning a number of filatures.¹ The capital for such undertakings was for the most part drawn from the country districts in which the mills were located, and thus it might seem that the raw silk industry owed little of its astounding growth to the great city financial houses which played a predominant part in large-scale manufacturing industry. This generalization, however, must be qualified. One of the reelers' major problems was connected with the provision of working capital for the purchase of the cocoons at harvest time from the peasants. A large part of this capital was in fact provided by, or through the medium of, the *tonya*, or commission houses, who acted as intermediaries between the reelers and the exporters of Yokohama and Kobe. A considerable proportion of the silk export trade in this period was conducted by foreign merchants and was financed by foreign banks,

¹ Pamphlet issued by Katakura and Company (Tokyo, 1934).

although after 1890 Japanese export houses and the Yokohama Specie Bank began to intervene. These financial relationships, therefore, meant that much of the working capital in this industry was provided indirectly either by foreign financiers or by the larger Japanese merchant and banking houses. Substantial loans to the reelers were of course made by the local bankers; but these obtained a high proportion of their funds by discounting promissory notes with the city banks. Thus, although the great silk industry might seem to be rooted in the old economy of the countryside, it was nourished by streams flowing from the terrain where the great Japanese merchant houses and foreign financiers had their homes.

Enterprises on the periphery of the industry also engaged the attention of large capital interests. A mill had been established in 1877 by the Government to spin waste silk according to Western methods, and ten years later this mill passed under the control of Mitsui. The spun silk industry subsequently grew up entirely under the direction of the great cotton-spinning concerns (Kanegafuchi and Fuji), and it was conducted in mills of a modern type. By 1914, however, its development had not gone very far. There were then only about 120,000 spindles in the spun silk trade, and the bulk of the waste silk was still exported.¹

The silk-weaving industry was only slightly affected by change during this period. Formerly the production of the highest grade silk goods had been in the hands of groups of famous specialist weavers, such as the famous Nishijin producers of Kyoto, whose trade had an elaborate organization; and this branch continued without much modification. Most of the weaving, however, had been conducted in peasant households. Each district specialized in a particular class of silk fabric, and some of them enjoyed a national reputation. The goods were sold to local merchants who often provided the weavers with their raw silk, and these local merchants in turn supplied the wholesalers (*toiya*) of Kyoto, which was the commercial centre of the industry.² The *toiya* sent out the fabrics for dyeing and finishing processes and then supplied distributors throughout the country. This organization has persisted to the present time, and a large proportion of the better grade goods for home consumption are still made on handlooms by weavers working in their own homes or in small workshops. The main alteration that took place between 1880 and 1913 was the replacement, in some measure, of domestic weaving by work in small specialist workplaces where a few looms had been collected together, and by the appearance of small factories using power looms in

¹ *The Japan Silk Year Book*, 1935-36, pp. 110 *et seq.*

² The *tonya* of Kwanto (Eastern Japan) appear as *toiya* in Kwansai (Osaka-Kobe).

branches of the trade which produced for export. The exports of silk fabrics (mainly *habutae*) to America increased substantially during the eighties and nineties, though further growth in this trade was checked by the raising of the American tariff just before the turn of the century. Yet even in 1913 the development of power weaving in factories had not proceeded far enough to effect any significant alteration in the organization of the industry. Thus, in Fukui and Ishikawa prefectures which were the main centres of the production of *habutae* for export, out of 35,000 looms only 16,000 were power driven. Only a small part of this great and expanding industry could be regarded as a factory, even a small factory, trade.

3. *Cotton, Wool and Other Textiles*

Large-scale enterprise had thus scarcely touched the basic activities of Japan during this era of change. New technical methods were introduced, but they were accommodated within the scope of small-scale undertakings, and only through the growing magnitude and complexity of financial relations between producers and merchants had modern capitalism begun to penetrate into these ancient industries. It was otherwise with the cotton industry, which was subjected to a far-reaching transformation. In the early years of Meiji, however, there had been few signs of the changes that were to come. The first result of European contact was to create serious competition with the domestic cotton-spinning industry through the import of yarns finer and cheaper than those produced in the home. The volume of cotton yarn imported rose from 12,000 bales in 1868 to 158,000 bales in 1888, the peak year. As we have seen, a few of the *daimyo* and the Government had set up spinning mills equipped with Western machinery; but these were small and for many years they made little headway against the flood of cheap foreign yarns. A further step was taken in 1880 when Viscount Shibusawa founded the Osaka Spinning Mill with 10,000 spindles, a venture that was a financial success. Yet in 1887 the total Japanese spindleage amounted to only 77,000, the equipment of a single fair-sized Lancashire mill. After the depression of the middle eighties had spent itself, several new spinning concerns were founded, including the now famous Kanegafuchi company. This was the herald of a remarkable expansion which began in the last decade of the century and continued for the next forty years.

The timing of this expansion needs some explanation. It was not merely that by then the initial technical difficulties attending the assimilation of a new process had been overcome, or that the Government was prepared to sacrifice the Japanese cotton growers for the benefit of an

industry the expansion of which depended on access to cheap Indian materials.¹ There were other causes. The steep rise of prices at that time provided a great stimulus for entrepreneurs, and industrial investment during the nineties was heavy in many branches of activity. Then, after the war with China of 1894-95, Japan succeeded in capturing the Korean market for yarn, and a year later when China placed a ban on Indian goods in consequence of the outbreak of an epidemic in Bombay, she seized her opportunities in that market also. But apart from these fortuitous circumstances, she had an enduring basis for success in this industry in her large supplies of cheap female labour nurtured in a tradition of textile work and in her vigorous leadership. The following table shows how fast

| | Number of Spindles (in thousands) | Output of Yarn (in million lb.) | Number of Spinning Companies |
|------|--------------------------------------|------------------------------------|---------------------------------|
| 1887 | 77 | — | — |
| 1893 | 382 | 88 | 40 |
| 1897 | 971 | 220 | 74 |
| 1903 | 1,381 | 317 | 51 |
| 1907 | 1,540 | 393 | 42 |
| 1913 | 2,415 | 607 | 44 |

spindleage and output increased during the twenty-five years before the Great War.² By that time Japan's cotton-spinning industry had been firmly established.

The bulk of the yarn produced consisted of coarse counts (20s and under); but Japan was moving slowly up the scale, and the proportion of coarse yarns to the total output fell from 88 per cent to 80 per cent during the ten years before 1914. It is evident from the above table that the size of the typical concern in the industry was growing. During the nineties, the expansion of the industry had been associated mainly with the increase in the number of concerns; but after the depression at the turn of the century many companies were merged, and most of the new mills that came into existence after 1900 were established by the existing companies. Consequently the average number of spindles to each concern rose from about 27,000 in 1901 to 55,000 in 1913. Even by the latter year,

¹ Import duties on raw cotton were removed in 1896.

² Figures of output, mills, spindleage and loomage based on semi-annual reports of Japan Cotton Spinners' Federation (in Japanese) and on an English publication of that body entitled *Cotton Statistics of Japan*.

however, the typical concern, and still more the typical mill, were small by British standards.

The industry was built up after 1890 almost entirely on the basis of imported cotton. China, which before this time had supplied the bulk of the import, was superseded by British India as the chief source of supply; while the United States became increasingly important in this respect during the years just before the Great War. The formation in 1892 of the famous Nippon Menkwa with a capital of one million yen marked the beginning of the great cotton importing business which to the present time has remained concentrated in a few concerns. At this time too there were drawn up (in 1893) the agreements between the Nippon Yusen Kaisha, the Japanese cotton spinners, and the Indian shippers, which provided for a reduction in freight rates on cotton imports from Bombay.¹

The cotton-weaving industry was differently affected. The domestic producers, having lost the spinning operation first through the competition of imported yarn, and later through the rise of factory spinning, directed their activities to an increasing extent to the weaving process. In the early years of Meiji the greater part of the narrow cloth for Japanese clothes continued to be produced on handlooms in the home. After 1890, with the growth in the production of cloth, specialized weaving sheds became more important and the power loom made its appearance. But the size of the weaving sheds remained very small, and in 1900 there were over 700,000 handlooms and only 32,000 power looms. Meanwhile a new branch of the industry made its appearance. In 1886 a spinning mill at Osaka had established a shed of narrow power looms to consume part of its yarn output, and this example was followed by a few others.² In 1892 there were about 900 power looms operated by the spinners and the number rapidly increased in subsequent years. In 1903 it reached 5,000 looms and in 1907 9,000. At this time the spinners were beginning to meet with difficulty in their yarn export trade because of Indian and Chinese competition, and so they were encouraged to extend their weaving activities more rapidly than before. By 1913 the spinners owned about 24,000 looms and produced 417 million yards of cloth. The bulk of this output consisted of wide piece-goods of a standardized character mainly for export. For example, three-quarters of the output was made up of shirtings, sheetings and drills.

In the first decade of the twentieth century the several branches of the weaving industry began to be differentiated. There was first the weaving of wide standardized piece-goods, largely for export, a trade which was

¹ *Golden Jubilee History of Nippon Yusen Kaisha*, pp. 18-22.

² *Industrial Japan* (World Engineering Congress, 1929), p. 287.

conducted in large sheds owned by spinners. Secondly, there was the production of piece-goods for the home market by small weaving sheds equipped either with narrow power looms or handlooms. Finally, there was the old domestic handloom industry. The first two branches of the industry were expanding rapidly; but even in 1913 they had by no means entirely displaced the domestic weaver. In that year 85,000 persons were recorded as being engaged in cotton weaving in factories or mills employing five persons and over. Most of these factories were very small since their total number was 2,087, of which only about half (1,135) had power-driven machinery. At the same time there were probably half a million households in which domestic weaving was still carried on. It is possible to estimate the relative importance of these different branches of the industry. The quantity of yarn used by Japanese weavers as a whole rose from 196 million pounds in 1903 to 420 million pounds in 1913. The proportion consumed in the sheds owned by the spinning concerns rose from 10.6 per cent to 26.5 per cent during this period. But, if the relative importance of this branch of weaving was growing, it was not at the expense of the specialist weaving industry, for the yarn consumption of that branch grew from 175 million pounds to 309 million pounds during the same decade.

The cotton and silk industries grew from ancient roots; but there were some branches of textile manufacture which owed their existence entirely to Western contacts. The most important of these was the woollen and worsted industry. Neither raw wool nor woollen manufactures were produced to any significant extent in Tokugawa Japan, and the industry had to be introduced from the very foundations. Its development proceeded from two directions. We have already seen that the Government had set up a factory for making army cloth in 1877.¹ This was followed by the establishment of a few private concerns producing army cloth, blankets and flannels during the late eighties and the nineties. These concerns depended mainly on Government orders and so their activity fluctuated widely. Their output rose steeply at the times of the Sino-Japanese war and the Russo-Japanese war; but in peace-time they could secure little business in competition with imported cloth, even though their products were favoured after 1899 by a 25 per cent *ad valorem* duty on foreign woollens. At first these mills imported all the yarn required for their looms. After 1900 some of them began to spin, but even in 1913 they still depended largely on foreign yarn imports. This branch of the

¹ *Industrial Japan*, p. 342. The following account of the growth of this industry is largely based on *The Present Status of the Woollen Industry in Japan* (Nagoya Imperial College of Commerce, 1935).

industry was concentrated in a few fairly large companies, and except in war-time its progress was not rapid. It was indeed over-shadowed by the growth of muslin manufacture. After the opening of the country to Europeans large quantities of muslins had been imported for the manufacture of kimono, as a substitute for cotton and silk. These imports averaged about 15 million square yards during the later seventies, about 13 million square yards in the later eighties, and then rose sharply in

OUTPUT OF WOOLLEN AND WORSTED TISSUES
(ANNUAL AVERAGES)

| Period | Muslin (in million yards) | Flannel (in million yards) | Serge (for Japanese dress) (in million yds.) | Woollens (in million yards) | Total Value (including others) (in million yen) |
|-----------|---------------------------------|----------------------------------|---|-----------------------------------|---|
| 1899-1903 | 8.83 | 0.90 | 0.28 | 0.82 | 4.36 |
| 1904-08 | 19.61 | — | 0.49 | 2.67 | 11.98 |
| 1909-13 | 51.12 | 1.30 | 3.78 | 1.54 | 21.66 |
| 1913 | 69.58 | 3.65 | 9.65 | 1.76 | 23.26 |

IMPORTS (ANNUAL AVERAGES)

| Period | Raw Wool (in million lb.) | Woollen and Worsted Yarn (in million lb.) | Tops (in million lb.) | Muslin (in million sq. yards) |
|-----------|------------------------------|---|--------------------------|-------------------------------------|
| 1899-1903 | 6.63 | 1.14 | 1.24 (1902-03) | 16.42 |
| 1904-08 | 11.74 | 3.68 | 4.36 | 7.99 |
| 1909-13 | 10.10 | 5.66 | 7.76 | 2.96 |
| 1913 | 11.61 | 9.38 | 9.45 | 0.16 |

the nineties to over 24 million square yards a year. Up to that time the Japanese demand was entirely satisfied from foreign sources of supply. Just before the end of the century, however, a few muslin mills were established in Japan, and the industry developed so quickly that the import of foreign muslins was soon affected. The tariff already mentioned helped the Japanese mills in this competition; but their chief advantage over the foreign producer lay in the fact that they were more skilful than he in turning out goods suitable for Japanese tastes. By 1913 imports of muslins were rapidly declining, and an export trade was being de-

veloped. The muslin branch had by then become much the largest branch of the wool-using industry. The manufacture of serge and worsteds was still in its infancy.

As was to be expected in an industry without a long native tradition, production was not widely scattered over a large number of producers, as with cotton and silk. The heavy woollen branch of the industry, being concerned with Government orders for standardized fabrics, was in the hands of a very small number of firms, and even muslin manufacture was conducted in relatively large mills, for it lent itself to standardized production on power looms. Yet in this industry, as in most Japanese trades, there appeared a fringe of very small producers working to the orders of merchants. The tables on page 69 will serve to illustrate the development of the different branches of production in the 20 years preceding the Great War.¹

Among the minor textiles the flax and hemp industries, which had a long history in Japan, were reorganized during this period. A hemp factory was founded with Government financial assistance in 1886 and others followed. During the Sino-Japanese War there was an active demand from the army for their products, but the trade decayed subsequently, to be revived during the Russo-Japanese War. In 1907 the industry passed under the control of the Teikoku Seima Kaisha (Imperial Hemp Company), a subsidiary of Yasuda; but it continued up to the war to be dependent on the demand for military goods, and the finer products were imported. In 1913 the spinning branch of the industry had about 27,000 spindles. This branch was conducted in fair-sized mills controlled by a single company, but much of the weaving took place in very small sheds. The hosiery industry also was started during the thirty years before the Great War. It specialized in cotton hosiery, and its equipment consisted of imported knitting machines operated mostly by hand in domestic or very small specialized workshops. The industry had not achieved the rank of an important manufacture in 1913; but it is of interest because it provides an example of a new trade which was organized according to small-scale methods characteristic of the older industries.

At the end of our period the textile industries formed by far the most important section of Japan's manufacturing activity. It is naturally difficult, in a country in which a large proportion of the manufactures is produced either in peasant households or by the part-time work of urban families, to form an accurate estimate of the industrial distribution of the population. Moreover, the vast majority even of the specialized work-

¹ Sources: Nagoya Imperial College of Commerce, *The Present Status of the Woollen Industry in Japan*; and Oriental Economist, *Foreign Trade of Japan*.

places were very small, and figures are not available to show the numbers employed in workplaces with under five workers. Since 1909, however, figures have been collected of the employment provided by "factories" with five or more workers. In 1913 nearly three-fifths of the persons so employed were in textile factories.¹ Figures are also available to show the gross output of the various "factory" industries similarly defined. These, though obviously defective as a guide to the relative importance of the different trades, show that 45 per cent of the total value was attributable to textile factories. Of the total value of textile production about 28 per cent was made up of raw silk and silk yarn, over 10 per cent of silk piece-goods (including mixtures), and 53 per cent of cotton yarn and piece-goods. Thus over nine-tenths of the total output of the textile industry consisted of silk and cotton goods. These formed the major manufactured products of Japan.

The textile trades are of interest for reasons other than their size. Although Government initiative had been an important factor in their development during the early years of Meiji, and although improvements, in the silk industry especially, owed much to official educative agencies, yet on the whole the expansion of these trades in the new century had depended little either on direct assistance from the Government or on the national economic policy then being worked out. Their rise was the natural consequence of the redistribution of productive resources that resulted from the impact of Western trade and technique on the old Japanese economy. The relative advantages of Japan in these trades depended on her possession of ample supplies of cheap labour with traditions of textile work, and on the technical fact that many of their branches could be satisfactorily conducted in small workplaces and without expensive capital equipment. It was in them, therefore, that the rising entrepreneurial class found the most fruitful field for its operations.

Viewed from another standpoint, the textile trades represent a form of activity where the two major sections of the Japanese economy meet, the traditional peasant economy and a new capitalistic economy. The silk trade, as we have seen, was an outgrowth of the former. Yet even here the new capitalism was intruding by means of the investments of the *tonya* and the city bankers in the large reeling mills, as well as through the working capital which they also provided. The large cotton spinning mills clearly belong to the new economy. Yet those mills not merely depended for their labour supply on the peasant families, but the whole system of industrial relations that grew up within them was moulded

¹ Excluding miscellaneous labourers, but including employees in Government factories. Source: Department of Commerce and Industry, *Factory Statistics*.

by social conditions peculiar to traditional Japan. At first the daughters of the peasants were reluctant to enter the new factories, and so a labour supply had to be attracted by means of factory agents. These made contracts with the heads of peasant families according to which the girls were to be allowed to work for a few years in the mills. As in the workshops of old Japan, the employer housed and fed these workers and even provided for their entertainment. He assumed obligations towards them which were at first the expression of this paternal relationship, but which later came to be regarded by the workers as a right. Among these obligations were the payment of dismissal allowances on the discharge of the workers and also the grant of semi-annual bonuses, which corresponded to the gifts which the employer in old Japan made to his servants at New Year and *O-bon*. It is true that this relationship might at times be associated with abuses, especially in the novel environment within which it was established; but there can be no question that its origins lie in the assumption by the new industries of a system of relationships derived from the older society. Western industrialism was thus modified by the social environment into which it was imported, and it consequently lost some of its alien character. Indeed, any criticism of the dormitory system in the cotton mills—as distinct from the abuses in that system—is ill-founded if the observer has failed to realize that its roots are to be sought in the social system of the country. Thus, even the large enterprises in the cotton, woollen and silk-spinning trades had to come to terms with the old society. As for the weaving process, in all the textile industries this was still largely a small-scale or household industry, and by 1913 a technical revolution in this section of manufacture was in its early stages. Much of the trade was located in villages and small towns, and its personnel still had close associations with the farming communities around them.

Chapter V

The Heavy Industries, Shipping, and Foreign Trade, 1881-1914

1. *Metals, Mining and Engineering*

Japan inherited a long tradition of skill in metal working as in textiles, and the products of her craftsmen, such as the sword makers, had enjoyed fame for centuries. But she found greater difficulty in adapting her metallurgical trades to Western technical methods than she did her textiles. This is not surprising. Countries in the early stages of modern industrialism have usually concentrated on the re-organization and development of their textile industries whatever their subsequent history may have been. The explanation is not hard to find. For economical production the metal and heavy engineering trades need more expensive capital equipment and more elaborate technical processes than the textile industries, and the scarcity of capital in "new" countries offers a handicap to development. Further, modern methods of metal manufacture differ greatly from traditional methods. They make heavy demands on scientific knowledge and trained technicians. Traditional aptitudes, therefore, provide a less satisfactory basis for these industries than for textile manufacture. Finally, unless a country offers a large market for a wide variety of metal goods and by-products, it is difficult for each of the special trades that fall within the metal groups to approximate to an optimum scale and so to work with a reasonable degree of economy. Japan suffered a further handicap in the major branch of metal production, namely the iron and steel trades, in that she was deficient both in iron ore and in good coking coal. When the industry began to appear in its modern form, it owed its rise to Government initiative, and for a long time its very existence depended on help from the State. It was in fact typical of those large-scale industries which were called into being by the Government's policy of building up manufacturing resources necessary for national power and security. Political necessity rather than economic advantage supplied the impulse.

In the early years of Meiji the home output of iron was limited to that produced from the sand-iron of the San-in district, and both this industry and the manufacture of finished iron goods suffered from the import of cheap Western products. In 1896 the home output of pig iron amounted

to only 26,000 tons, about 40 per cent of the total consumption. The home output of steel was insignificant, and practically all the home consumption of 222,000 tons was furnished from abroad. In that year, however, the Government decided to establish an iron and steel industry equipped with Western plant, and in 1901 a State-owned and operated concern, known as the Yawata Iron Works, began production. A few years later several other plants were founded by large private capital interests, and by 1913 the pig iron output reached 243,000 tons and the steel output 255,000 tons, 48 per cent and 34 per cent respectively of the home consumption. Neither the State nor the private undertakings were financially successful, and the contribution of the latter to the total output remained small—in 1913 34 per cent of the pig output and 15 per cent of the steel output. Thus, before the Great War Japan was still largely dependent on foreign countries for the iron and steel which she consumed, and the bulk of her own output was produced by a single State concern. Her finished steel production was naturally confined to a narrow range of products, virtually to bars, rails, plates and wire rods, and for most other kinds of finished steel she relied almost entirely upon imports. Even though her iron output was so small, she could not by any means fully supply her furnaces with domestic ores. In 1913 her ore output was only 153,000 tons, mostly from the Kamaishi mines, about 27 per cent of her ore consumption. The rest came from Korea and China. It is clear that even at the end of this period the Japanese iron and steel industry was of very slight importance.

The mining industries had been more successful. As we have seen, copper, silver and gold had been mined for many centuries, while coal and oil-mining appear to have developed soon after 1700. After the Restoration Western technical methods were introduced, the first modern shaft having been sunk at the Takashima colliery in Kyushu. That island, indeed, provided the bulk of the coal mined in Japan during this period, although after 1883 the Hokkaido field was exploited. At first output was very small, but with the progress of industrialization after 1894 it rose quickly, and by 1913 100 mining companies were in existence with an aggregate paid-up capital of 39 million yen and with 172,000 miners in their employment.

On balance Japan had a small export of coal after 1890, and by 1913 it had risen to over 3 million tons a year. At home the largest consumer during the first twenty-five years of Meiji was the salt industry. Then in the nineties, with the increasing use of steam power by the new industries, manufacturing establishments became the largest consumer; while in the decade before the Great War the hunker trade consumed as much as the

factories. As the Japanese warm their dwelling houses with charcoal braziers (*hibachi*), the consumption of house coal was insignificant. The greater part of the coal output was produced by a small number of concerns, many of them affiliated to the *zaibatsu*. Efficiency does not appear to have been high. In 1913 production per worker employed (above and below ground) was only 123 tons, and the output per man-shift (underground workers only) was only 0.53 ton. For this the thinness of the seams as well as the imperfect equipment of the mines was responsible.

The ancient copper-mining and refining industry was also reorganized during these years. Although it was eclipsed by coal-mining, yet it continued to expand up to 1914, when Japan ranked as the second largest

COAL OUTPUT (ANNUAL AVERAGES)¹

(in million metric tons)

| | | | | | | |
|-----------|----|----|----|----|----|------|
| 1877-84 | .. | .. | .. | .. | .. | 0.8 |
| 1885-94 | .. | .. | .. | .. | .. | 2.6 |
| 1895-1904 | .. | .. | .. | .. | .. | 8.0 |
| 1905-14 | .. | .. | .. | .. | .. | 16.8 |
| 1914 | .. | .. | .. | .. | .. | 22.3 |

copper exporter in the world. Both on the mining and the refining side the industry was in the hands of a few great business families, Kuhara, Mitsubishi, Fujita and Furukawa. These also owned factories in which much of the copper was consumed. The bulk of the output came from a small number of mines, over half from the four largest and nearly two-thirds from the eight largest mines. The same is true of the other mining enterprises. Thus, although there was an important fringe of small-scale mining undertakings, the industry as a whole was conducted on a large scale. As we have seen, this had been true even before the Restoration.

Oil-mining was another ancient industry which expanded during the new era. The development became rapid after the establishment in 1888 of the Japan Oil Company, equipped with American apparatus. Later this company established an up-to-date refining works. The output of crude oil in Japan rose from 33,000 barrels in 1887 to over 100,000 barrels in 1893 and to over 1¼ million barrels in 1903. After this time growth was slower because of more intense competition from abroad and the difficulty of exploiting new fields. Foreign concerns established refining and storage capacity for imported oils, together with a distributive organization, and

¹ Sources of these and other data concerning the mining industry: *Financial and Economic Annual of Japan*; and Mining Bureau of Department of Commerce and Industry, *General Conditions of Mining Industry of Japan* (annual).

after 1908 there was a marked decline in domestic production. This competition from abroad led the Japanese companies to come to an agreement with their foreign rivals, Standard Oil and Rising Sun Oil, who operated in Japan. By this the various members of the industry were allotted quotas in the amount to be supplied to the market, and the foreign companies obtained the right of supplying 65 per cent of the annual consumption. This seems to have been the first international industrial agreement to which Japan was a party.

The engineering industry, although fostered by the Government for political reasons, failed to reach a substantial size during this period. For instance, Japan relied until the very last years of Meiji mainly upon foreign shipyards to provide her with the larger ships for her growing mercantile marine. Certain Government yards (notably those of Nagasaki, Kobe, Uraga and Ishikawa), which had been taken over from the Shogunate and the *daimyo*, were transferred to private ownership in the early eighties, and at the same time new private yards were established; for example, the Osaka Iron Works in 1881 and the Ono Shipbuilding Company in 1883. But output remained very small until the end of the century. It was not until the nineties that the first steel ship was built and before 1895 only one steamship of over 1,000 gross tons had been constructed. A new era began with the Shipbuilding Encouragement Act of 1896. This provided for the granting of official subsidies to builders of iron and steel vessels of over 700 gross tons. The bounty was at the rate of 12 yen a ton for ships of under 1,000 tons and 20 yen a ton for those of over 1,000 tons, while 5 yen per horse-power was given for marine engines manufactured in Japan. As a result several new yards were founded and existing ones extended; but the subsidy was still not large enough to promote a rapid development of the industry; for at that time practically all the materials had to be imported, and Japanese technicians were far inferior to those of other countries. In 1899 further encouragement was given by an amendment of the Navigation Subsidy Law. This law, passed in 1896, had provided for subsidizing the mercantile marine. The amendment entitled owners of Japanese-built ships to claim twice the amount of subsidy granted to owners of foreign-built ships. From this time onwards the leading yards were entrusted with the building of several large ocean-going steamships. In 1909 revised subsidy laws came into force and gave another stimulus to the industry. By then considerable experience in shipbuilding had been gained, and supplies of certain kinds of steel and components were becoming available from domestic manufacturers. In the years immediately preceding the Great War the Japanese yards were able to undertake the building of warships.

By 1913 there were six yards capable of building vessels of 1,000 tons and over, besides many small concerns, and the number of workers in the industry was 26,000. The annual average gross tonnage of steamships launched, which had been under 10,000 tons until the late nineties, rose over 50,000 tons in the period 1909-13.¹ The annual average tonnage of sailing ships launched also increased substantially from the last years of the century and reached about 20,000 tons in the period immediately before the Great War.

By the standards of the leading Western countries the shipbuilding output in 1914 was still unimpressive, and this was true of the production of engineering goods as a whole. The greater part of the equipment needed for the railways, ships, factories, power stations and mines was imported, and the production of engineering goods was limited to a very few factories. Some of these, which were later to become very important, were established towards the end of the nineteenth century, notably the Shibaura Engineering Works, founded in 1887. (This firm, besides undertaking general engineering work, began in 1892 to produce electrical machinery and apparatus. Several other firms entered this trade at about the same time. For instance, the Tokyo Electric Company carried on pioneer work in the manufacture of electric bulbs, the Fujikura Electric Wire Company produced wire and cables, and the Oki Electric Company telephone and telegraph apparatus. The first locomotive built in Japan was turned out in 1892. During the period between the Chinese and the Russian wars several new engineering firms were founded by the great business families in association with other enterprises. Furukawa and Sumitomo, which had great interests in the copper-mining and refining industry, set up electric wire and cable works where the products of their mines were consumed. The subsidy granted to the builders of marine engines induced Mitsubishi and Kawasaki to create manufacturing plant for that purpose in connection with their shipyards at Kobe. After the nationalization of the railways in 1906 the Government discriminated in favour of domestic producers of rolling stock, and this led to an expansion in that branch of engineering. For instance, the Kawasaki Dockyard Company started its railway workshops in 1908.

During the first decade of the present century there was a marked increase in the use of electricity for lighting, street traction and factory plants. New power stations were built, and Japan began to make use of her great resources of water power for the generation of electricity. In 1907 the production was 115,000 K.W.H., of which one-third was by

¹ Ships of 100 tons and over.

water-power; by 1914 the amount had increased to 716,000 K.W.H., of which four-sevenths was generated by water-power. The spread of electric lighting affected all branches of the electrical engineering and apparatus industries. Foreign capital came in to assist in this development. For instance, in 1905 the General Electric Company (of America) acquired interests in and reorganized the Tokyo Electric Company which began to produce the Mazda lamp. It acquired control of the Osaka Electric Lamp Company a year later. In 1905-06 two firms, one of them the Nippon Gaishi of Nagoya, were founded for the manufacture of insulators. The Mitsubishi Shipbuilding and Engineering Company set up a department for making electrical equipment for ships and mines. In 1910 the Kuhara mining interests established the Hidachi Works, now one of the greatest of Japan's engineering firms. The paid-up capitalization of the engineering industry rose from a mere 2.6 million yen in 1893 to 14.6 million yen in 1903 and to 61.1 million yen in 1913. The capital invested in electricity supply companies rose from 2 million yen in 1893 to 12 million yen in 1907 and to nearly 200 million yen in 1913. On the eve of the Great War there were 60,000 persons employed in factories producing machinery, instruments, tools and vehicles, apart from those engaged in shipbuilding.¹

There was a considerable number of small workshops engaged in manufacturing parts and working to the orders of the factories; but most of the heavy engineering industry was concentrated in a few large firms, each with a wide range of output. The more important among these firms, moreover, were owned by the great business families with interests in many branches of large-scale enterprise. Thus the Hidachi Works was owned by Kuhara which was dominant in the mining industry; the Shibaura Works was associated with Mitsui; two of the great houses in the copper trade (Furukawa and Sumitomo) controlled the chief electric wire and cable works; Mitsubishi and Kawasaki had important general and electrical engineering activities associated with their shipyards. Many branches of the trade depended mainly on Government orders, such as the firms that produced telegraphic apparatus and rolling stock, or derived great assistance from the subsidy policy, such as the marine engineers. Thus the heavy engineering industry falls almost entirely within the second branch of Japan's economy which is distinguished by a concen-

¹ *Industrial Japan*, pp. 245-96; S. Uyehara, *op. cit.*, pp. 213-23; M. Suzuki, *Nihon Zaibatsu Ron* (Essay on the Japanese Zaibatsu), *passim*; *The House of Mitsui*; *An Outline of Mitsubishi Enterprises*; *Statistical Year-Book of Empire of Japan*; T. Uyeda and T. Inokuchi, *The Electric Lamp Industry* (Institute of Pacific Relations), pp. 3-4.

tration of control in a few capital groups and is moulded and governed by State policy.

A few branches of the light engineering industry, later to become important, were started in the last twenty years of this era; but none of them had become very large. Among them we may mention the bicycle industry. The first producers of bicycles were craftsmen formerly engaged in gun manufacturing, especially those situated at Sakai near Osaka. The leading firm in the trade, the Miyata Works, was formerly a rifle manufacturing concern which started making bicycles in 1888 and soon began to specialize on this new industry.¹ In the new century, and especially after the Russo-Japanese War when many gunsmiths turned to bicycle manufacture, the industry expanded. Most of the producers were small men who at first occupied themselves with manufacturing parts needed for repairing bicycles that had been imported. In the years immediately prior to the Great War, however, there was a strong tendency for each small producer to specialize on particular components required for the complete bicycle. These components were made to the orders of merchants who afterwards had the parts assembled. The tendency was accompanied and assisted by a standardization of components, and so the bicycle manufacturing industry began to assume a definite form. Although the output even in 1914 was still small, and although large imports of parts and accessories were needed to satisfy the home demand, this industry is of interest because it provides an early example of certain new trades which were later to become an important feature of Japanese manufacture. These are the industries which turn out light engineering or miscellaneous products and are conducted in small workshops, each specializing on a few processes or components needed for the finished commodity.

2. *Other Manufactures*

Among other large-scale industries which were formed at this time we can mention the cement, sugar-growing and refining, glass, beer-brewing, paper and artificial fertilizer industries. All these owe their inception to the great business families who were often assisted by the State to launch these new enterprises. Thus the manufacture of foreign-style paper had begun with the formation of the Oji Company by Mitsui and Shimada in 1871 on the advice of the Government. Several other

¹ Pamphlet issued by Miyata Works, Tokyo.

This affords an interesting parallel to the development of the industry in England. Rifle manufacturers, notably the B.S.A. Co., were among the first English firms to take up the manufacture of bicycles on a large scale.

concerns were founded during the last decade of the century, and by 1913 the annual output of paper amounted to about 500 million pounds. This figure includes Japanese-style paper which was organized in an entirely different way from the foreign-style paper-making industry. Japanese paper continued to be produced, as it had been for centuries, in small workshops or in peasant households, whereas foreign-style paper was manufactured in large mills equipped with massive Western machinery.

This contrast between the old and new branches was to be observed in many industries. In brewing, for example, the production of *sake* was conducted in very small establishments; but the new beer industry from the first was in the hands of a small number of large concerns. It had begun in the seventies when the Kirin Company, and also a Government brewery in Hokkaido, were set up. In the eighties the latter passed to the Dai Nippon Brewery Company, and at the end of that decade the Ebisu and Asahi Companies were formed. Up to the Great War, and indeed for long after, practically the whole trade was controlled by four concerns in which the *zaibatsu* had important interests.¹

The sugar industry provides a particularly good example of the co-operation of the State and the *zaibatsu* in the creation of large-scale enterprises. Cane sugar had been produced in Japan before the Restoration; but the industry declined during the early part of the Meiji era in consequence of the imports of cheap foreign sugar. The annexation of Formosa, however, gave Japan extensive territories climatically suited to cane-sugar growing. Even so the trade would have made little headway against imports of cheap Java sugar if the Government had not given substantial subsidies to the Formosan companies and if high import duties on foreign sugar had not been imposed. These duties and subsidies date from 1902, and production was trebled during the next ten years. Meanwhile, a sugar-refining industry had grown up in Japan. From the middle nineties the Dai Nippon Seito began to refine imported Javanese sugar, and although the duties of 1902 damaged this trade, a system of drawbacks was instituted and made possible the growth of an export trade in refined sugar produced from Javanese raw sugar. Both branches of the industry were controlled by a very few concerns. From 1902 the Dai Nippon Seito monopolized the home market until it was joined in 1908 by two others. In 1914 it owned three out of the five sugar-refining factories of Japan. The interests of the raw sugar producers and the refiners came into conflict in connection with the Javanese imports which the former wished entirely to exclude. The conflict was resolved, however, by the merging of interests. The Dai Nippon Seito in 1911 entered the

¹ Information supplied by *Oriental Economist* in 1936.

raw sugar trade, and the two leading raw sugar companies, the Meiji and Taiwan, bought sugar refineries in Japan. Both Mitsui and Mitsubishi were closely associated with the development of this industry, and each controlled one of the leading concerns.¹ In this field, as in many others, they acted in a sense as agents of the Government in the execution of its economic policy.

In the cement industry, also, *zaibatsu* capital was present but scarcely so dominant as in the sugar trade, partly no doubt because the scale of enterprise was smaller, and partly because Governmental policy was not so closely involved in its development. Japan has abundant clay and limestone and fair coal supplies, and so she was well fitted for this industry. A Government factory, established in 1871, was turned over to S. Asano in 1884, who was a typical "self made" industrialist of the Meiji era. Just after the Restoration he had supported himself in Tokyo as a hawker. He later began to trade in the by-products of the Yokohama Gas Works, and after purchasing the Government's cement factory, he soon built up an important business in that industry as well as in the oil, shipping and shipbuilding trades. In the early eighties the Onoda Cement Company was formed, and this later passed under the control of Mitsui.² It was not, however, until Western methods were introduced during the nineties that output became at all substantial. With the industrialization of the country and with the development of communications in the fifteen years before the Great War, the demand for cement greatly increased, and output rose from 87,000 tons in 1896 to 645,000 in 1913. In that year the industry was in the hands of 18 companies, which together operated 21 factories.

Another new large-scale industry which was born in the later years of Meiji was the glass trade. Several firms engaged in producing bottle and lamp glass were established in the nineties, and there was some small production of sheet and plate glass. This last branch of the trade, however, did not become important until after 1907, when the Asahi Glass Company was reorganized with Mitsubishi capital. Even in 1913, however, the bulk of Japanese requirements depended upon imports, and the trade was still in its infancy. This could be said of several branches of manufacture which were later to become great industries, such as the chemical industry and the rubber trade. The latter industry had scarcely existed before 1900, and only began to develop rapidly after 1909 when the Dunlop Company built their factory at Kobe for manufacturing bicycle tyres. About the same time the manufacture of rubber shoes began to grow up, and this

¹ Information supplied by *Oriental Economist* in 1936.

² M. Suzuki, *op. cit.*, pp. 217 *et seq.* and *passim*.

industry took over many of the small workplaces and part of the labour force formerly engaged in the Kobe match trade, then fallen on bad times. This branch of the rubber industry was typical of a number of trades that made their appearance in the decade before the Great War. These were industries producing small miscellaneous goods of a Western kind which lent themselves to manufacture in small workplaces. Japan possessed in her abundance of cheap, assiduous and docile labour a relative advantage over other nations in this type of industry, an advantage which she could not claim in trades where for technical reasons efficient production required highly mechanized factories. Once the labour force had become sufficiently experienced and entrepreneurs had become alive to their advantages, these trades were bound to expand along with the rise among Japanese consumers of a demand for Western-style goods.

While some of these small-scale industries had slender connections with the traditional activities of the country, others gradually developed from roots that went far into the past. The pottery trade, for example, was of ancient origin, and was conducted by small potters in several parts of the country, each with its own speciality. Some branches of it, such as the Kyoto trade, were concerned with high-grade wares made by artist-craftsmen, while other branches were in the hands of peasants. These producers continued to manufacture goods for the home market throughout the new era. In some districts, however, the potters turned to the manufacture of foreign-style goods for export. In the main the organization of the industry changed but little, even in the export branch. The working potters generally produced their wares to the orders of local merchants, and these supplied the export houses which had originally furnished the patterns. Thus, at Seto, near Nagoya, an important centre of the trade in both Japanese and foreign-style goods, there were in 1893 434 master potters and decorators, 109 glaze kilns and about 3,000 workers. Just before the Great War one or two fairly large factories were established in the foreign-style china trade; but these were exceptions to the prevailing industrial pattern. By 1914 there were no less than 5,540 workplaces engaged in pottery and china manufacture, and about a third of the output (in value) was exported. The lacquer-ware trade was another manufacture which continued to work according to the old methods, but which developed new varieties of goods. In both of these industries the superb aesthetic traditions of the Japanese served them well.

Agriculture and the staple manufacturing industries, especially those modelled on the West or engaged in providing export goods, attract the imagination and have received most attention from Western writers. But

we should gain a distorted view of the Japanese economy if we failed to observe another branch of activity which was, and still is, exceedingly important, though difficult to measure. The Japanese, even to-day, preserve to a remarkable extent the habits of domestic life handed down from past times. They live in wooden houses of traditional design; their furniture, domestic utensils, clothes and food are still in the main peculiar to themselves, although of course by no means unaffected by Western influences. Up to 1914 these influences on domestic life were slight. Consequently, a great mass of trades existed to provide the goods and services of which there were no counterparts abroad. In every centre of population there were large numbers of people who prepared various kinds of Japanese food and who either sold their products in little shops attached to their houses or peddled them round the neighbourhood. In the same way, *geta* (wooden footwear) were then for the most part turned out by craftsmen who sold direct to local customers; while the coloured thongs which attached the *geta* to the feet were produced by domestic workers in their spare time. The Japanese, though their life has always been simple, demand a high standard of artistic merit in articles of everyday use. So not merely their furniture and ornaments, but even some of their common domestic utensils have to be made by craftsmen, and these can work most effectively in little domestic workshops. The very small producing units which, as we have seen, remained typical of much of the weaving trade, were well adapted to serving a market composed of consumers who insisted on individuality in the design of their dress materials. Finally, the building trade, in Japan as elsewhere, was conducted by small firms. These trades which catered for the home market accounted in the aggregate for a very large proportion of the industrial population. It is impossible to estimate numbers, because many of the industries could scarcely claim a separate identity. Some of them were in the hands of part-time workers, especially those engaged in agriculture; others were not differentiated from the retail trade. The number of retail establishments was immense. Kaempfer in the eighteenth century had been impressed, as we have seen, by the number of shops in Japan, and they certainly did not become less numerous in the new era. It would, however, be a mistake to think that all of them were small shops attached to dwelling houses. We have referred to the large stores which had existed from the eighteenth century; many of these were reorganized and expanded after the Restoration. Notable among them was the old retail store of Mitsui, which, in 1904, was separated from the parent firm and became the famous Mitsukoshi Departmental Store.

3. *Shipping*

Improvements in transport were everywhere in the nineteenth century the concomitant of industrialization, and the Meiji Government was fully alive to the necessity of effecting such improvements in its own country. For the development of a shipping industry Japan was well-favoured. Her traditions of seamanship, though deprived of full expression by the restrictions of the Tokugawa period, and her geographical position and structure were factors favourable to the development of a mercantile marine. Experience in operating ocean-going ships alone had to be acquired. To this end the Government set up in 1875 schools of navigation and marine engineering, and it engaged British experts to staff them. Foreign captains and officers also were taken into the service of the shipping firms. Until the end of the nineteenth century these foreigners formed a high proportion of the officers employed by the mercantile marine, and their numbers remained significant until 1914.¹ As with other industries, the Government chose to work out its policy through the medium of a few financial groups which it assisted and guided but did not directly control.

The history of the modern mercantile marine begins with the establishment in 1870 of the Kaiso Kaisha (Transport Company) which owned vessels formerly belonging to a clan government and was capitalized jointly by the State and by private interests. In 1872 this company, after reorganization, began to operate a subsidized service between Tokyo and Osaka. Two years earlier a *samurai* named Iwasaki acquired three steamers, previously the property of his *daimyo*, and employed them in the coastal trade. In 1873 his business became known as the Mitsubishi Shokai, a name of significance in modern Japan. When the Government in 1874 needed ships in connection with the expedition to Formosa, it bought them from abroad and entrusted them for operation to Mitsubishi which was given charge of military transport. By 1875 Mitsubishi, having absorbed the Kaiso Kaisha, owned 37 vessels with a tonnage of 23,000. It then founded a marine school, which received a Government subsidy, and it started a service to Shanghai. During the Satsuma Rebellion of 1877 Mitsubishi ships were again required for military transport, and the concern was able to extend the size of its fleet through financial assistance from the Government. In 1879 its ships began to run to Hong Kong, and in 1881 to Vladivostock. Mitsubishi's shipping activities in this decade were thus closely bound up with its associations with the Government.

¹ In 1895 about two-fifths of the masters, navigating officers and engineers employed by the N.Y.K. were foreigners. Even in 1910 more than a quarter of the masters were foreigners (*Golden Jubilee History of Nippon Yusen Kaisha*, p. 166).

Other small concerns were started after 1877, also with Government aid, and these amalgamated to form the Kyodo Unyu Kaisha (United Transport Company) in 1882. Keen competition appeared between Mitsubishi and this new company in the coastal trade during the early eighties, and pressure from the Government led to their amalgamation in 1885 and to the formation of what has since become the chief Japanese shipping line, the Nippon Yusen Kaisha. At the beginning of its career the new company had 58 ships and a total tonnage of 65,000, apart from sailing ships. Close associations with the Government were maintained. The State guaranteed dividends of 8 per cent on the company's capital for 15 years, and it also supervised its business and designated routes on which its ships were to run. In the meantime a number of small shipowners engaged in the coastal trade from Osaka joined together to form the Osaka Shosen Kaisha (1883), which from this time constituted the second largest shipping company.

During the eighties Japanese ships were engaged merely in coastal trading or in services to the China coast. In the early nineties they began to run to Hawaii. Then, with the outbreak of the Sino-Japanese War, new carrying capacity was needed, and many new ships were added to the mercantile marine. After the war a new era in Japanese shipping began. Governmental policy was crystallized in the Navigation Subsidy Act of 1896, under which State subsidies were granted to Japanese shipowners on ships of 1,000 tons and over and of 10 knots and upwards employed in foreign trade.¹ As a result of this encouragement, the shipping companies began to acquire larger ships and to extend their operations to distant parts of the world. The N.Y.K. started its services to Europe, Australia and North America before the end of the century; and, as the Shimonoseki Treaty gave Japan navigation rights in Chinese waters (especially on the Yangtse), several companies began to operate services there.

The Russo-Japanese War proved another starting point for a rapid advance in tonnage, as ships had to be bought for military transport. After the war these ships were employed on new routes, and several new companies were formed. For instance, the O.S.K. started its Takoma service in 1910; the Nanyo Yusen Kaisha was founded to trade with Java and the South Seas; and new services were operated to Dairen, Saghalien and other parts of North Asia. In 1910 the Government replaced the legislation of 1896 and 1899 by a new Act which empowered it to select and to subsidize mail steamship routes. The years immediately pre-

¹ The annual amount of subsidy paid to Japanese shipowners rose from about 1 million yen before 1896 to nearly 6 million yen in 1899-1900. The Act was amended in 1899; see, *supra*, p. 76.

ceding the Great War saw the amalgamation of several concerns. In 1907 several companies operating services in Chinese waters formed the Nisshin Kisen Kaisha, which then took charge of this section of their interests, and in 1911 the Chosen Kisen Kaisha was established in the same way for the Korean service. The rise in the importance of Japanese shipping is shown by the growth in the proportion of the country's foreign trade carried by it. In 1893 about 14 per cent of the ships entering the ports were Japanese, and these carried only 7 per cent of the country's exports and under 9 per cent of her imports. By 1903 the proportions had risen to 38 per cent, 40 per cent, and 34 per cent, and by 1913 to 51 per cent, 52 per cent, and 47 per cent. In shipping as in most of the modern industries it was only after the middle nineties that Japan began to achieve a position of any importance, but once progress had begun it was extremely rapid.

MERCANTILE MARINE

| | Steamships ¹ (in thousand gross tons) | Sailing Ships (in thousand tons) |
|------|---|-------------------------------------|
| 1873 | 26 | 8 |
| 1894 | 169 | 45 |
| 1904 | 797 | 327 |
| 1913 | 1,514 | 828 |

4. *Foreign Trade*

The broad changes in Japan's foreign trade between 1881 and 1913, on which the discussion of industrial development has already thrown some light, are shown in Tables XXI, XXII and XXIII of Appendix B. The trade, it will be seen, was of little significance until the later nineties, but from then on it grew fast, and by 1913 could be considered substantial. The alterations in the value of the monetary unit in which the trade is measured tend to exaggerate the rise which occurred; but estimates suggest that there was a tenfold increase in volume during these thirty years. In the first part of the period, from 1881 to 1893, almost every year showed a favourable trade balance; but after the Sino-Japanese war of 1894-95 there were heavy imports of capital and a large adverse balance in the visible trade.

The industrialization of the country, which at the beginning of this era

¹ 20 gross tons and over.

was almost wholly agricultural, naturally had an effect on the composition of the foreign trade. On the import side there was a great increase in the importance of finished manufactured goods and a decline in the importance of exports of foodstuffs and raw materials. Throughout the period, however, the largest share was taken by the group of semi-manufactured commodities and the proportion of these goods to the total exports even increased. These changes require a more detailed examination. In the early eighties the three major exports consisted of raw silk (a semi-manufactured commodity), tea and rice, and these together accounted for nearly two-thirds of the total. Raw silk was by far the most important of them, and tea came second. The few manufactured exports still consisted, as they had done in earlier decades, of pottery and other products of the old domestic trades, and there was in addition a small trade in copper, an export of long standing.

Little alteration in the structure of the export trade occurred in the next decade and a half. By 1894 the share taken by raw silk had slightly increased, while that of rice and tea had diminished. The importance of copper had risen, and a new trade had developed in coal. These agricultural and mineral products (raw silk, tea, rice, copper and coal) in 1894 accounted for well over three-fifths of the total exports. A few additional manufactured goods had by this time entered the export list. The most important of these was silk piece-goods, while an export of matches had also been developed. The former trade was the result of the successful adaptation of an ancient Japanese industry to the requirements of foreign (chiefly American) markets; the latter was a Western industry for which Japan's ample supplies of cheap unskilled labour suited her. In 1894 Japan's exports still depended mainly on her native raw materials and her traditional small-scale industries.

In the next few years the effects of industrialization began to reveal themselves. A large new trade in cotton yarn was built up and a smaller export of cotton piece-goods appeared. Silk piece-goods continued to grow in importance, and in 1900 cotton and silk textiles (including cotton yarn) were responsible for 22 per cent of the total exports. With this enlargement in the scope of the export trade, the share taken by raw silk declined, in spite of a considerable absolute increase. The importance of copper and coal was maintained; while the agricultural exports, tea and rice, suffered a relative decline. Between 1900 and 1913 there was a steep rise in exports. This was attributable mainly to the expansion of trade in raw silk, silk piece-goods and cotton yarn and piece-goods. On the eve of the European war these four commodities accounted for well over half the total exports; raw silk alone provided 30 per cent. The specializa-

tion on textiles or textile materials which was to be the most prominent feature of Japan's trade for the next two decades had thus come into being. Exports of mineral and agricultural products, which had been so important in the nineteenth century, had by this time fallen away.

The import trade underwent corresponding changes. In the early eighties nearly half the imports consisted of manufactured goods, and there were few industrial raw materials. By 1913 the finished manufactured imports had fallen to under a fifth of the total trade, while over a third consisted of raw materials and about a sixth of semi-manufactured goods. Perhaps the most surprising feature of the trade was that in spite of the large growth in the population, food and drink imports formed a smaller proportion of the total in the years just before the Great War than they did in the early eighties. This demonstrates the success of Japan in raising her food production from agriculture and fisheries to supply her growing needs. A glance at the trade in particular commodities is illuminating. In 1881 imports of cotton yarn accounted for about a quarter of the total, and imports of cotton yarn and of cotton and woollen piece-goods for about three-fifths. The other chief imports were sugar, mineral oil, and iron and steel products. By 1894 the structure of the trade was already changing, for a large import of raw cotton had appeared and machinery, tools, instruments and vehicles occupied a prominent place. Textile imports had suffered a relative decline, and cotton yarn and piece-goods and woollen piece-goods by this time accounted for under a fifth of the total. Among the foodstuffs, sugar retained its importance (with about 12 per cent of the total), and imports of rice began to exceed exports. These tendencies continued during the later nineties and into the new century. By 1913 nearly a third of the imports were of raw cotton, and imports of other textile materials, such as wool, had also achieved some significance. Iron and steel and other metals also had a larger share of the trade than in 1900 and 1894, while the importance of machinery and tools had risen. On the other hand, imports of cotton yarn and textile piece-goods had by this time become very small. These changes were symptomatic of a country that had created flourishing textile industries and was rapidly building up its equipment for its manufacturing trades as a whole.

Even in the early years of the present century, European observers were still sceptical of Japan's capacity for industrial expansion, and most of them thought little of her chances of ever competing effectively with other countries in the world markets for manufactured goods. A typical opinion was that of a French observer:¹ "En somme il faut dire . . .

¹ H. Dumolard, *Le Japon, politique, économique et social* (1905), p. 163.

que l'industrie japonaise semble incapable d'entrer en concurrence sérieuse, sur les marchés européens, avec nos usines. Le Japon n'a qu'un moyen de faire quelque chose, c'est de réserver pour les marchés d'Europe et d'Amérique les productions spéciales dans lesquelles il excelle, telles que les soieries, les objets d'art, c'est à dire les articles dont la confection dérive du travail manuel; . . . il ne doit guère songer à lutter avec les nations européennes en ce qui concerne les manufacturés même avec les avantages de main d'œuvre à bon marché dont il jouit. Au point de vue industriel, il ne fera toujours que de mauvaises contrefaçons des produits européens dignes au plus, par leur bas prix, d'approvisionner les marchés d'Extrême-Asie." In spite of the great expansion that had occurred in the preceding forty years, this was not an unreasonable judgment to make in 1905, or even in 1913; for Japan's export trade was highly specialized to raw silk, which she supplied to the United States, and relatively small quantities of cotton goods which she sent mainly to China. But the qualification which this commentator had thought fit to introduce in the last sentence of the quotation might have led him to further reflection. He might have considered that the development of the natural resources of East Asia and the South Seas—and indeed of other raw material producing areas—might well present great opportunities to a country that was capable of supplying the vast and still impoverished population of those regions with cheap manufactured goods, even if the quality of those goods might not always compare favourably with that of similar products of Western industry.

Chapter VI

The Great War of 1914-18 and the Post-War Decade

THE Meiji era coincided with the period in which Japan laid the economic foundations of a modern State. The accession of the new Emperor, Taisho, came only two years before the outbreak of the Great War of 1914-18, which marked for Japan, as for other countries, a great dividing line in economic history. During the whole of the Taisho era, which ended in 1926, Japan was concerned with urgent financial, industrial and social problems which were the result of the impact of the war on an economy which for other reasons was in a stage of rapid growth and change. Shortly after the end of that era, just when the problems of adjustment seemed to be approaching solution, Japan was overwhelmed by the world depression of 1930-31, and her efforts to free herself from its effects brought about profound modifications in economic policy and in the trend of industrial development. Let us, first, survey briefly the proximate effects of the Great War on Japan. Then we can pass to a more detailed study of her financial, industrial and commercial history during the twenties.

The immediate effect of the war was to accentuate the financial difficulties with which Japan was already struggling; for it not merely interrupted some of her more important channels of trade but also disorganized her arrangements for financial settlements through London. In the early months of 1915, however, it became clear that the country was on the threshold of a period of unexampled prosperity. Markets, especially Oriental markets, were thrown open to her through the inability of the former suppliers to meet current demands; contracts for munitions began to be placed with Japanese manufacturers by Allied Governments; and there arose a strong demand for Japanese shipping. These conditions persisted until the end of the war; indeed, the industrial boom lasted until the break in the spring of 1920. Important new enterprises were established in many branches of industry; existing enterprises were enlarged; and between 1914 and 1919 the number of workers in factories that employed 5 persons and over grew from 948,000 to 1,612,000.¹ Some details of this industrial expansion will be given in the

¹ *Factory Statistics*, issued by the Department of Commerce and Industry. The figures are for the end of the year in each case.

next chapter, and here attention will be concentrated on developments in finance and foreign trade.

The buoyant demand for Japan's goods, at a time when she could not secure equivalent imports, led to the appearance of an impressively large export surplus. Whereas, in 1911-14 the average annual excess of imports over exports amounted to 65 million yen, in 1915-18 the annual excess of exports averaged 352 million yen. In value the exports of 1918 were three times those of 1913; in volume it has been estimated that they were 40 per cent greater. At the same time, her invisible exports greatly expanded. In 1914 her steamship tonnage stood at $1\frac{1}{2}$ million; in 1918 she had over 3 million tons. Japan's net income from freights rose from under 40 million yen in 1914 to over 450 million yen in 1918. Even in 1919, when there was a return to a small import surplus in her visible trade, the shipping boom continued. The result has been summed up by saying that Japan's net credits on international account from trade and services aggregated over 3,000 million yen between 1914 and 1919. This was 1,000 million yen more than her total foreign indebtedness in 1913 and about 1,700 million yen more than her net foreign indebtedness at that time.

The financial circumstances attending such a complete and rapid transformation are interesting in themselves, besides being of great significance for an understanding of the subsequent development of Japan's economy. It might have been expected that the huge surplus earned by Japan on income account would have been applied to the redemption of her outstanding foreign debt, to profitable foreign investment, and to the strengthening of her gold reserves. The first expedient was attempted only on a small scale, partly because the Government objected to issuing domestic loans for this purpose, and partly because Japanese securities rose in price during the war. The second expedient was tried fairly extensively, but very unwisely. Of the total of over 1,000 million yen of foreign investment made during this period, more than half was in short-dated securities issued by Allied Governments. None of these gave rise to a permanent source of foreign income, since they were redeemed soon after the war, with the exception of a loan to the Czarist Government which was repudiated. Other very large loans were made to the Chinese local and provincial governments for political reasons, notably the Nishihara loans to the Anfu "war-lords"; and most of these were never repaid. Thus, Japan's war-time incursions into the field of long-term foreign investment were extremely unfortunate; even so, that investment represented but a small part of the surplus which she accumulated.

The result was that in the early years of the war Japan imported gold on a large scale, and the Bank of Japan's gold reserves held in Japan, together with the gold holdings of the Government in Japan, increased very substantially. After the United States imposed her embargo on gold in September 1917, however, the balance of indebtedness to Japan could not be settled by gold movements, and so there was a heavy accumulation of funds in New York. Even before the war, as was described in Chapter III, it was customary for the Government and the Bank of Japan to hold balances abroad (mainly in London), and the foreign holdings of the latter counted as part of the gold reserve against the note issue. These foreign balances were now swollen enormously. By December 1919 they reached 1,343 million yen, compared with 213 million yen before the war. After the United States lifted the gold embargo (in May 1919) there was a resumption of gold imports, but at the end of 1920 the foreign balances were still nearly 1,100 million yen. The results of war-time financial operations may be conveniently summarized in the following table:

GOLD RESERVES OF BANK OF JAPAN AND JAPANESE GOVERNMENT

(in million yen)

| Date | Held at Home | Held Abroad | Total |
|---------------|--------------|-------------|-------|
| December 1914 | 129 | 213 | 342 |
| December 1920 | 1,116 | 1,062 | 2,178 |

The financial machinery of Japan was incapable of dealing successfully with the profound changes in her international trading position. Before the war Japan's international accounts had been mainly settled through London,¹ and the financial experience and resources of that centre were denied to her at a moment of unexampled financial strain. The financing of foreign trade in Japan, as we have seen, was largely in the hands of a specialized exchange bank, the Yokohama Specie Bank. In the absence of a discount market and of the bank acceptance, the funds of the ordinary banks were not available for the financing of foreign trade. Consequently, the Yokohama Specie Bank was left to rely on its own resources and on borrowings from the Bank of Japan, which again had established no close connections with the ordinary banks. After the American gold embargo had been imposed, the Yokohama Specie Bank could not transmit the

¹ Practically all export bills were sent to London for discount.

proceeds of its export bills to Japan, and it could only find funds to take up the growing mass of export bills by selling its foreign holdings to the central bank or the Government and by borrowing from the central bank. It was by these processes that the foreign holdings of the Bank of Japan were augmented and that the Bank's loans to the exchange banks grew from 20 million yen in December 1915 to 440 million yen in June 1918. These operations were accompanied by a large increase in the Bank's note issue, which rose from 385 million yen in December 1914 to 1,555 million yen in December 1919, and by a steep rise in prices; in March 1920 the wholesale price index reached 322 (1913 = 100).¹ The rise in prices stimulated industrial activity, but at the same time provoked social unrest; for the profit-inflation was accompanied by a fall of real wages, in spite of a rise in money wages. The famous "rice riots" of 1919 showed how incensed the urban population had become because of the fall in its standard of life. During the war, then, Japan had succeeded in making a substantial economic advance, and had converted herself from a debtor to a creditor country; but her cost and price structure had been distorted and the war had thrown into relief serious weaknesses in her financial organization.

The post-war boom collapsed in Japan in March 1920. The wholesale price index fell from 322 in that month to 190 in April 1921. The collapse had been particularly pronounced in the raw silk and rice prices, and the Government supported a silk valorization scheme and introduced the Rice Control Act in an effort to arrest the decline and to stabilize prices. By 1922 Japan was climbing out of the depression, although certain of her industries, particularly those which had expanded very quickly as a result of the war-time demands, failed to recover; notably, shipbuilding and coalmining. In the sphere of foreign trade, the immediate post-war years saw the reappearance of an import surplus. In 1919 and 1920, while exports were practically stationary, imports grew very fast, and in the next two years declined more slowly than exports. In 1919-22 (inclusive) the aggregate excess of imports amounted to 824 million yen, and the net favourable balance on invisible items, which had grown so large during the war, also greatly diminished.

The reasons for the growth of this unfavourable balance deserve examination. In the first place, it is clear that post-war deflation in Japan was not carried as far as in the main financial centres abroad. After the steep fall in Japanese prices during the first year of the depression, there was a slight up-turn, in contrast to the movements in England and the

¹ This is the Bank of Japan's Wholesale Price Index, 1900 = 100, converted from the original base. See Appendix B, Table XXIV.

United States where the decline went further, and by August 1923 Japanese prices appeared to be out of line with those abroad. The following table demonstrates this:

INDEX NUMBERS OF WHOLESALE PRICES¹

| Date | Japan (Bank of Japan) | United Kingdom (Sauerbeck-Statist) | United States (Bureau of Labour) |
|---------------|--------------------------|---------------------------------------|-------------------------------------|
| March 1920 | 322 | 307 | 227 |
| April 1921 | 190 | 199 | 142 |
| December 1921 | 209 | 157 | 133 |
| December 1922 | 183 | 152 | 144 |
| August 1923 | 190 | 147 | 140 |

The causes of this failure to carry deflation as far as it had gone in other countries throw light on certain characteristics of Japan's economy as a whole. The expansion of business during the war and the post-war boom had been made possible by the heavy extension of credit on the part of the ordinary banks of the country. The collapse of the boom in 1920 meant the "freezing" of many of these advances, and further deflation would have increased the crop of industrial and banking failures to the point of economic disaster. The Government, reluctant as always to push things through to a crisis, preferred to temporize rather than to incur the social consequences of a violent, deliberate deflation. Moreover, the Government had to take account not merely of the general public reaction to such a policy, but also of the influence of powerful organized groups. For instance, the *zaibatsu*, who controlled some of the chief ordinary banks, were unlikely to look with favour on a policy which would be detrimental to their far greater industrial interests. In other words, the close links between industry and banking in Japan meant that financial policy was unlikely to be determined by technical financial considerations.

Even had the Government attempted to enforce a policy of deflation, it is doubtful if there existed the means for carrying it out. It has already been shown that the Bank of Japan had little control over the banking system of the country, and that its bank-rate was ineffective in its influence on the credit policy of the numerous ordinary banks. But, while it could not check their rashness during the boom, it had to make large advances to them on several occasions after 1920 in order to avoid a panic. As, at

¹ The price indices have been converted to a common base year; 1913 = 100.

the same time, the Government was driven to give financial support to schemes for checking the slump in rice and silk prices, and as this meant an increase in borrowing, the deflation was arrested at an early stage. This, in itself, we should now judge, was not necessarily a disadvantage; but, although Japanese prices did not fall so far as British and American prices in the period from 1920 to 1923, the exchange value of the yen was maintained in the neighbourhood of dollar parity. This was achieved through the re-sale by the Government of the foreign balances accumulated during the war to the exchange banks which were thus enabled to meet their import bills. Thus, from 1921 to the end of 1923 the yen was over-valued on the exchanges, and it was because of this that the import surplus became so large. The policy came to an end with the earthquake of 1923. For that disaster necessitated the import of huge quantities of reconstruction materials, and it so seriously reduced the foreign balances that further support of the exchange became impracticable. The yen was allowed to fall, and until the end of 1925 it remained almost 20 per cent depreciated. The decline in the exchange was accompanied by a rise in exports, and in 1925 these attained a level which was not reached again for ten years.

Meanwhile the earthquake led to a further period of inflationary finance. The Bank of Japan adopted an easy credit policy and, in order to relieve financial institutions whose loans had become frozen as a result of the earthquake, it was authorized to discount specified bills (Earthquake Bills) under a Government guarantee against loss up to 100 million yen. Further, the Industrial Bank of Japan and the Hypothec Bank made loans on easy terms to facilitate reconstruction. Government expenditure also increased as a result of the earthquake, and this was financed mainly by borrowing. There was, moreover, at this time a growth in local and colonial government indebtedness for reconstruction and development purposes, and public utility companies also raised large amounts of new capital. Some of this borrowing was in foreign capital markets. The consequence was a "reconstruction boom." The wholesale price index, which had stood at 190 in August 1923, rose to 214 at the end of 1924, but afterwards fell back a little.

The Government was disquieted. It was anxious to restore financial stability and, after the British return to the gold standard in 1925, it began to take measures which were believed to herald the removal of the embargo on gold exports. Economies were effected in expenditure, and new taxes imposed with a view to balancing the budget. Substantial shipments of gold from Japan were permitted in the autumn of 1925, and this led to bull speculation in the yen which carried it by the later months of

1926 to the neighbourhood of par. This rise in the exchange led to a fall in exports and disorganized particularly the raw silk producers. Prices fell very steadily.¹ These conditions intensified the strain on the Japanese banks, burdened as they were with "frozen" advances. In the spring of 1927 discussions in the Diet on the question of postponing the settlement of the Earthquake Bills revealed the unsoundness of the banks. A crisis developed during which the Bank of Taiwan, the 15th Bank (the Peers' Bank, one of the largest ordinary banks in Japan), and thirty-four others closed their doors. A moratorium had to be proclaimed, and the Government authorized the central bank to give accommodation to other banks, including the Bank of Taiwan,² under an official guarantee of 700 million yen. These measures brought the crisis to an end; but the effect of it was to postpone the return to the gold standard and the deflation that was necessary before a return could be contemplated.

Nevertheless the financial crisis of 1927 was of great importance for the future economic development of Japan. For reasons that have already been described, the liquidation of unsound undertakings which owed their rise to the war-time boom, and the adaptation of the economy as a whole to peace-time conditions of trade, had not occurred on the same scale in Japan as in other industrial countries during the early post-war years. In the crisis of 1927 this readjustment at last occurred. Unsound industrial and trading concerns were weeded out, or passed, after decapitalization, under new and more efficient control; many of the Suzuki interests, for instance, passed to Mitsui. The same is true of the banking system. The eighteen months after June 1927 were a period of consolidation during which the number of ordinary banks was reduced from 1,359 to 1,031. This period saw the beginning, moreover, of efforts to improve efficiency in the textile industries which were later to bear fruit.

When the Minseito party returned to office in the summer of 1929 they began to prepare for a removal of the gold embargo.³ The Finance Minister, Mr. J. Inuoye, had long advocated a policy of balanced budgets and free gold movements. He recorded his views on Japanese financial

¹ Wholesale prices fell from 200 in October 1925 to 170 in December 1926.

² The Bank of Taiwan had lent heavily to Suzuki, a large Japanese concern engaged, *inter alia*, in the sugar industry. This bank had borrowed from other banks, and from the Bank of Japan, in order to maintain solvency, but when the Bank of Japan refused to continue advances without a Government guarantee, it failed.

³ The two chief political parties at this time were the Minseito and the Seiyukai. The Minseito had developed from the older Kenseikai. See R. K. Reischauer, *Japan: Government—Politics*, especially Chap. VI, for an excellent short description of the political system.

policy in a book which has been translated into English¹ and reveals a mind firmly convinced of the correctness of what was then regarded as "orthodox" financial policy. Like the old-fashioned Liberal finance ministers, he believed that it was of first-rate importance that a country should honour its financial obligations, should preserve stability in its exchanges, and should adhere to an international gold standard for reasons of national prestige as well as of convenience. Mr. Inouye had convinced his colleagues and the business world that exchange fluctuations were more detrimental to Japan's future development than any temporary inconveniences that might attend a return to the gold standard. He aimed at balancing the budget without resort to loans, and in 1929 the moment seemed propitious. "American prosperity" was causing an exceptionally rapid expansion in the demand for raw silk; India was buying increased quantities of Japanese cottons; and the general buoyancy of world trade was having its influence on other Japanese exporting industries and on the mercantile marine. (In 1929 the balance of payments on current account appears to have been favourable for the first time since 1919.) The announcement in June 1929 of the new Government's policy led to a movement of short funds into Japan and a sharp rise in the exchange. The gold embargo was lifted in January 1930.

No more unfortunate moment could have been chosen for the operation of this new policy. It is generally recognized that Japanese prices before 1929 were too high in relation to American prices to make it possible for her to maintain dollar parity without exporting gold or borrowing abroad. Thus, even had the world prosperity continued after 1929, it is likely that some fall of domestic prices would have been necessary in order to maintain the yen at par. This fall would have placed a strain on the economic system, since price- and cost-relations had for a long period been consolidated at a level well above that in the rest of the world. The onset of the depression, just when the yen had been restored to par, and the consequent heavy fall in world prices, greatly increased the difficulties of adjustment. The movements of Japanese prices during this period are given in the table on page 98, which also shows the movements in American prices. It will be seen that the decline in the former was no less than 35 per cent, compared with the American decline of 27 per cent.

It was thought by some Japanese that this steep fall in their prices was an indication that their country's price structure had been adjusted to the new conditions; but they overlooked the lamentable social consequences of the decline and had no vision of the political upheaval that

¹ *Problems of the Japanese Exchange, 1914-1926.*

was to be the heir of the depression. Moreover, the rise in the exchange during the latter half of 1929 had been associated with an inward movement of funds. Some of these were withdrawn when the gold embargo was lifted, and in the course of 1931 the Bank lost 260 million yen from its gold reserve, almost a quarter of it.

The chief source of the economic difficulties which now faced Japan was the fall in raw silk prices that accompanied the collapse of "American prosperity." During 1930 raw silk prices declined by 50 per cent, and

INDEX NUMBERS OF WHOLESALE PRICES

(1913 = 100)

| | Japan (Bank of Japan) | United States (Bureau of Labour) |
|------------------|--------------------------|-------------------------------------|
| April 1929 | 170 | 139 |
| December 1929 .. | 155 | 135 |
| December 1930 .. | 122 | 112 |
| October 1931 .. | 110 | 101 |

silk exports in that year were only 53 per cent in value (though 82 per cent in weight) of those of 1929. Exports of cotton goods also fell off steeply, and the export trade as a whole was some 27 per cent less than in the previous year. The slump struck a serious blow at one of the largest and most vulnerable sections of the Japanese economy, the peasant farmers. The fall in silk prices ruined many of these farmers, while the falling off in the cotton trade reduced the opportunities for employment offered to their daughters by the textile mills. In 1931 the situation deteriorated. Silk prices and the value of silk exports declined further, and exports of manufactured goods met with additional obstacles from the higher Indian tariff and from a Chinese boycott. For some years, moreover, the price of rice had been low because of a series of good harvests, and in 1930 the crops were exceptionally heavy both in Japan Proper and in Korea. The price of rice in Tokyo, which had averaged 29 yen a koku during 1929 fell to 17 yen in November 1930, and although in 1931 the harvest was small, prices showed little recovery. Thus the peasantry faced ruin.

The Government had to modify its "no loan" policy to meet the distress in agricultural areas. In the spring of 1930 it launched a silk valorization scheme; it incurred additional expenditure for relief works; and it disbursed large sums as loans to the distressed classes of producers. Yet

it still persisted in its efforts to carry through deflation. It set up elaborate machinery for encouraging rationalization and technical improvements in industry; and it proposed to reduce a number of industrial subsidies. In the summer of 1931 Mr. Inouye pressed for a lowering of military and naval expenditure, as this alone could enable him to reduce substantially his budgetary deficit. The proposal met with bitter opposition from the military groups, and from that moment the doom of the Government was sealed. During the twenties the militarists had been losing their political influence, and power had been passing to the commercial classes and the Diet. The collapse of "American prosperity" discredited these new leaders and, indeed, parliamentary government as a whole. The unrest of the peasantry was communicated to the Army, which is recruited largely from that source, and the military made plans to re-assert their authority. In the meantime the turn of events was leading speculators to buy dollars in anticipation of the fall in the yen, and gold shipments continued on a large scale. The final blow was given when Great Britain left gold, and so exposed Japan to renewed British competition both in manufactured exports and in the carrying trade, while at the same time losses were inflicted on the Japanese banks through the depreciation of their funds in London. When the Army launched itself, almost at the same time, on its Manchurian campaign, the end was very near. The flight from the yen proceeded still faster, and by the end of 1931 the gold reserves of the Bank of Japan were only 470 million yen compared with 1,072 million yen two years before. In December the Government fell and the embargo on gold exports was re-imposed. This was the end of the deflationary policy, and indeed of a decade of uncertain and, on the whole, disastrous, financial policy. Like many other countries, Japan had been torn between a desire to return to "orthodox" financial policy and a desire to avoid the measures that were its logical consequence. She was able for a time to avoid the results of her inconsistent policy because of the reserves which she had accumulated during the war. When she had reached the point of being willing to accept the logic of her choice it was too late.

It is easy for the critic to argue, in the light of later events, that she should have invested her reserves accumulated during the war, and that she should have allowed the yen to fall to its "natural" level in the early twenties. It is also easy for him to claim that it was foolish for her to return to gold when she did, and at the pre-war dollar parity. But that those who were responsible for the deflationary policies of 1926 and 1929 were entirely mistaken in their efforts is not beyond question. For one result was certainly to stimulate the weeding out of inefficiencies

and the improvement in manufacturing methods; and on this, in part, was based the striking industrial advance of Japan in the next decade. A final judgment, however, must take into account the political effects of economic policy, and this is no place to consider how far the transference of power to the barbarous elements in the Japanese governing classes was dependent on the consequences of the economic policy just examined, nor, indeed, how far those consequences could have been avoided in the existing economic situation in the outside world.

At this point it will be useful to review the development of the Japanese banking system, the foundation of which was described in an earlier chapter. The financial difficulties of the twenties brought out the deficiencies of the system and led to some important modifications. In the first place, large numbers of the smaller banks failed, especially after the financial crisis of 1927, or were absorbed by the larger banks. A revision of the banking law which took effect in 1928 was partly responsible for the latter development. The revised law raised the capital requirement of banks in Tokyo and Osaka to 2 million yen and of other banks to 1 million yen—double the previous requirement—and it increased the Government's power of inspection. The result was that the number of banks declined from 2,285 in 1918 to 913 in 1930, and outside the special banks, a high proportion of the total business came to be conducted by a very few great banks working with a number of branches. Thus the "big five" banks (Mitsui, Mitsubishi, Dai-ichi, Sumitomo and Yasuda) held by the end of 1928 26 per cent of all deposits, or 34 per cent of the deposits of the ordinary banks. If to the deposits of the "big five" are added the deposits of the nine next largest ordinary banks, the proportion of all ordinary bank deposits held by this group of fourteen banks was 55 per cent. It should be observed that four out of the five greatest banks were controlled by the *zaibatsu*, whose financial power was thus greatly increased by this process of consolidation.

While these large banks were engaged mainly in commercial banking, as it is understood in the West, the smaller banks—chiefly country banks—were concerned with mortgages and industrial and agricultural financing. This brought them within the sphere for which certain of the special banks, and in particular the Industrial Bank of Japan, had been designed. Frequent failures attended concentration upon this hazardous form of business for which they were generally ill-equipped. Even among the large banks, moreover, business was very different in character from that of the great English joint stock banks. A cheque currency developed slowly in Japan, and the greater part of the advances of the banks took the form not of overdrafts but of loans, against promissory notes, on the

security of stocks or the properties of the borrowing concerns. There continued to exist a shortage of first-rate marketable shares or bonds that might serve as security for loans, since so many of the great business undertakings were in the hands of the *zaibatsu* which had little to do with the security market. Further, efforts that were made to develop the bank acceptance and a discount market shortly after the Great War ended in failure. The banks could not dispose of their "call funds" to the bill market, which, indeed, in the absence of bank acceptances and Treasury Bills, hardly existed. So most of these funds, as previously, flowed to the special banks, especially the Yokohama Specie Bank, while certain of the "big five" began to take part directly in foreign exchange business. Thus the assets of the ordinary banks consisted mainly of promissory notes, backed by collateral not easily realizable, loans to special banks, advances on mortgages of land and buildings, and foreign bills which they had little chance of re-discounting.¹ The liabilities side of their accounts were likewise in sharp contrast to that of ordinary commercial banks in Western countries. A high proportion of their deposits consisted of fixed deposits, to be withdrawn at long notice.

The special banks naturally declined in importance with the development of the private banks, but the absolute volume of their business nevertheless extended considerably. The Hypothec Bank, which specialized on granting long-term loans largely to agriculturalists and to small country manufacturers on the security of immovable property, raised the amount of its loans of that character by two and a half times between 1921 and 1931. It played an important part in relieving the difficulties of the small country banks during the crisis of 1927. The process of banking consolidation affected this field of finance also; for after 1921 the Hypothec Bank began to absorb the prefectural Agricultural and Industrial Banks and to operate them as its branches.

The Industrial Bank of Japan's business underwent some important changes. It was first established to make long-term loans to industry on the security of movable property, and it also played an important part in introducing foreign capital into Japan. During and after the Great War it became an agent for Japanese investment in China and the South Seas, and it co-operated with the *zaibatsu* in investing in continental and other enterprises deemed to be of national importance. Some of this continental investment was unprofitable, and was inspired largely by political motives. Up to 1927 it does not seem that the Industrial Bank did much to help smaller industrial enterprises in Japan; for the

¹ In the years 1928-30 over a quarter of the loans of the ordinary banks were made on the security of land and buildings.

greater part of its loans and investments were in large concerns, many of them of a public and semi-public character. After the financial crisis of 1927, however, it adopted a policy of extending help to smaller borrowers and obtained additional powers for this purpose from the Treasury Deposits Bureau.

In spite of the development of foreign exchange business by certain of the ordinary banks, the Yokohama Specie Bank continued to be responsible for the financing of the greater part of Japan's foreign trade, although in the import trade the Japanese branches of foreign banks still remained important. The Specie Bank became, after the failure of the Taiwan Bank in 1927, about the only market for call loans available to the ordinary banks, and in acquiring the resources for its operations it relied heavily on advances from the Bank of Japan or on the rediscounting of its bills with that institution. As the ordinary banks did not rediscount with the central bank, except in times of financial emergency, the central bank's holdings of foreign bills, which formed at this time a considerable proportion of its assets, came almost entirely from the Yokohama Specie Bank. Thus the Yokohama Specie Bank constituted almost the sole link connecting the Bank of Japan with the credit market. Most of the bills were single-name bills (or at most two-name bills) secured by collateral.

From what has been said above, it is clear that the relations of the Bank of Japan and the rest of the banking system altered but little during the twenties. The bank still remained merely an institution for conducting Government business and for supporting the exchange bank; and only in times of crisis (as in 1927) did it make close contacts with the credit market as a whole. Its rate was ineffective, and its so-called open-market policy was directed towards creating favourable conditions for Government issues rather than towards controlling credit-creation by the other banks. In fact, the policy of the ordinary banks remained little affected by the decisions of the central bank. If it failed to secure control of credit policy in Japan itself, it could also do little to affect movements of funds between Japan and other centres. In this respect, movements of the bank rate had little or no effect, and so temporary difficulties could not be met by drawing on international short-term funds. Japan's financial system was to this extent insulated from the rest of the world, a condition which had both advantages and disadvantages.

The continued weakness of the Bank of Japan may seem rather surprising, since one cause of this, namely the existence of very large numbers of small independent banks, was being removed during the twenties by process of banking consolidation. This consolidation, however, had the effect of strengthening the great banks associated with the *zaibatsu*, which

were themselves vast concentrations of economic power and had huge resources apart from those associated with their banking interests. These great banks became increasingly independent of the central bank, and were more than ever inclined to follow autonomous policies. While the Bank of Japan was an exceedingly imperfect instrument for exercising centralized control over the financial system, the Government could sometimes affect the policy of the other banks through its control over the vast volume of postal savings that are administered by the Treasury Deposits Bureau. Changes in the savings-deposit rate sometimes caused the other banks to modify their rates in a similar direction, since they were competitors for small and medium deposits. There were, however, narrow limits to the application of control in this way. Whether attempts were made, by the use of powers conferred by the bank-inspection legislation, to bring the banks into line with Governmental policy, it is difficult to say; the powers do not seem to have been widely used.

The growth of the *zaibatsu* also affected the capital market, since a large proportion of the sounder concerns were owned by great houses which were not obliged to raise capital through public issues. The Japanese public prepared to invest directly in industrial securities remained very small. The bulk of the people still preferred to entrust their savings to banks, savings banks, or the post office, and much of the capital for industry was provided by these institutions or by the official Industrial and Hypothec Banks which raised money on debenture issues for this purpose. After 1927 there was an important development. The crisis of that year caused widespread distrust of the ordinary banks which were caught with many "frozen" advances to industrial concerns. Depositors looked for other outlets for their savings, and found them partly in trust companies which had hitherto been of small importance. The additional resources thus placed at their disposal enabled the trust companies to play a much bigger part than before in underwriting and taking up issues of capital. The most important of these trust companies were owned by the *zaibatsu*, which operated them in close association with their banks and insurance companies. Thus this development also increased the concentration of economic power in the great economic enterprises of Mitsui, Mitsubishi, Sumitomo and Yasuda.

The general course of foreign trade in the period from 1914 to 1930 has already been sketched, but it is convenient at this point to sum up the results of this period of development and to examine the changes in the composition of the trade that took place.

The figures of foreign trade show an increase between 1913 and 1929 of three times in value and well over twice in volume. The increase in total

overseas' trade, including trade between Japan Proper and her colonies, was even greater. Before 1914 this colonial trade was of little significance, and even at the end of the Great War it represented only about 12 per cent of Japan's overseas' trade. During the twenties, however, there was a rapid expansion, and by 1929 colonial trade represented nearly one-fifth of the total. This trade, it should be noted, was not handicapped by import duties or restrictions; while colonial tariffs on foreign goods were on the same scale as those of the mother country. Japan's trade with her colonies was typical of the classical relations between a home

FOREIGN TRADE OF JAPAN PROPER

(in million yen)

| Year | Trade with Foreign Countries | | | | Trade with Foreign Countries and the Japanese Colonies Together | |
|------|------------------------------|--------|---------|--------|---|---------|
| | Imports | | Exports | | Imports | Exports |
| | Value | Volume | Value | Volume | Value | Value |
| 1900 | 287 | — | 204 | — | 292 | 213 |
| 1913 | 729 | 100 | 632 | 100 | 795 | 715 |
| 1919 | 2,173 | 128 | 2,099 | 131 | 2,516 | 2,374 |
| 1925 | 2,573 | 183 | 2,306 | 186 | 3,109 | 2,676 |
| 1928 | 2,196 | 216 | 1,972 | 212 | 2,749 | 2,409 |
| 1929 | 2,216 | 221 | 2,149 | 233 | 2,765 | 2,604 |

country and her empire. Exports consisted of manufactured goods, including capital goods for building up their resources; while imports consisted almost entirely of foodstuffs and raw materials. Korea sent mainly rice (which formed an increasing part of the Japanese home supply), beans, marine products and fertilizers; Formosa sent mainly sugar and rice.

If we turn to the composition of Japan's trade with the outside world over this period, we find, as we should expect in a country in process of industrialization, that the proportion of finished manufactures to her total exports rose substantially. In 1913 it was 29 per cent; in 1929 it was 44 per cent. About the same percentage in 1929 consisted of semi-finished goods, mainly raw silk. In 1913 there was already a pre-dominance of textiles among the exports. Cotton yarn and cloth, raw silk and silk manufactures, together accounted for nearly 53 per cent

of the total exports. Raw silk alone made up 30 per cent. By 1929 the trade had become even more highly specialized. In that year this group of textiles accounted for 65 per cent of the total exports; raw silk alone made up 37 per cent. Cotton exports had changed their character. In 1913 the bulk of them had consisted of yarn. By 1929 yarn exports had declined absolutely; but a great trade in cotton piece-goods, amounting to over 19 per cent of Japan's total export trade, had been built up. The export trade was specialized in markets as in commodities, and this specialization had also increased in the period now being considered. In 1913 China (including Manchuria, Hong Kong and Kwantung) and the United States, took 64 per cent of the total exports; in 1929 the proportion was 67 per cent. The United States took no less than 43 per cent of the exports in 1929 and her importance had increased; while China's had fallen. British India had come to the front as a market in this period and took 9 per cent of the exports in 1929, and the British East Indies was also becoming a substantial market. The types of exports taken by the Asiatic markets on the one hand and the United States on the other differed greatly, for the United States took mainly a semi-manufactured commodity, raw silk, while Eastern Asia took manufactured goods, chiefly cotton goods. This was the pattern of the export trade which had been forming in the early years of the century and seemed to be firmly set by the late twenties.

Chapter VII

Industry and Agriculture, 1914-32

THE unbalanced development that occurred between 1914 and 1919 left Japanese industry with serious problems of adjustment, which the financial troubles of the early twenties did not help to overcome. Japanese industrialists, indeed, were inclined in subsequent years to look back on the whole decade as one of stagnation. Yet, in fact, progress was substantial, even if it was irregular and not equally evident in all fields of activity. Furthermore, there were developments in technique and organization which held great promise for the future. In some fields, the post-war decade was one of great development; in others, of preparation for advances to come. From this time onwards, statistical information is more abundant than in the pre-Taisho era. The censuses of 1920 and 1930 provide us, for the first time, with adequate data about the occupational distribution of the population, and attempts have also been made to measure the general economic progress that was achieved during the period. It is convenient to begin this chapter by a reference to the more important facts disclosed by these inquiries.

Between 1914 and 1930 the total population of Japan proper grew from 51 millions to 64 millions, more than 25 per cent. The national income, if we ignore changes in the value of money, increased more than fourfold over this period.¹ In real terms it was probably well over twice as great. It is not easy to measure the way in which the different classes in the community were affected by this growth. Japan was applying herself throughout this period to building up her industrial equipment, and the proportion of the national income that was annually invested was therefore high; while governmental expenditure on the armed forces, though it did not increase in proportion to the rise in the national income as a whole, remained considerable. Nevertheless, there is no doubt that the real income of the workers grew substantially. Professor Uyeda has estimated that the real wages of the industrial workers throughout the country as a whole, were in 1929 50 or 60 per cent above the 1914 level. The real incomes of the peasants certainly rose to a much less extent; but even the peasants, especially those in the neighbourhood of the industrial centres, were better off than they had been in 1914, except in the bad years.

¹ It was put at 10,636 million yen in 1930.

In which parts of the economy did the expansion occur? Koide's estimates of raw material production show a rise of about 46 per cent between 1914 and 1930, or about 19 per cent per capita; the greater part of this rise took place before 1924. The increase was particularly marked in fishery products, in cocoons and agricultural raw materials as a whole; while in cereal production it was comparatively small. Indices of industrial production are not available for the whole period, but the Mitsubishi Index, though limited in scope, shows a rise from 110 in 1924 to 159 in 1929 (base = 1921-25)—a period in which the rise in raw material output was comparatively slow. Available figures of particular manufactured commodities indicate a very rapid expansion—often, of course, from small beginnings—over this period 1914-29. Some of them are given below:

| | Cotton Yarn (million lb.) | Raw Silk (thousand kwan) | Woollen and Worsted Tissues (million yards) |
|------|------------------------------|-----------------------------|--|
| 1913 | 607.2 | 3,741 | 81.2 |
| 1920 | 726.8 | 5,834 | 70.5 |
| 1925 | 974.7 | 8,284 | 161.3 |
| 1929 | 1,117.0 | 11,292 | 222.2 |

| | Coal (million tons) | Finished Steel (thousand tons) | Cement (thousand tons) | Chemical Fertilizer (thousand tons) | | Electric Power Capacity (thousand kilowatts) |
|------|------------------------|-----------------------------------|---------------------------|--|---------------------|---|
| | | | | Superphosphate of Lime | Sulphate of Ammonia | |
| 1913 | 21.3 | 255 | 645 | — | — | 504 |
| 1920 | 29.2 | 533 | 1,353 | 509 | 80 | 1,214 |
| 1925 | 31.5 | 1,043 | 2,508 | 674 | 131 | 2,768 |
| 1929 | 34.3 | 2,034 | 4,349 | 947 | 234 | 4,194 |

It is clear from these figures that those manufacturing industries which before 1914 had begun to occupy a prominent place in Japan's new industrial system, namely cotton and silk, were immensely enlarged. A number of other industries imported from the West also began to grow to substantial proportions at this time, chemicals, woollen and worsted, engineering, iron and steel; although their relative importance in Japan's economy still remained small. This rapid industrial advance must, of

course, be viewed against Japan's economic background as a whole; in 1930 manufacture (including building) still engaged less than one-fifth of the occupied population, while agriculture occupied nearly half of it.

We must turn, therefore, to consider what happened during those years to the peasantry, before studying in detail the character of the more striking developments in manufacturing industry. The number of farming families was practically stationary over this period at about $5\frac{1}{2}$ millions. The change in the size-distribution of the farms, as the table below shows, was small, the trend being slightly against both the very smallest type of farm and the large farm.

NUMBER OF FARMS

(in thousands)

| Year | Under 5 tan | 5 tan-1 cho | Over 1 cho- 2 cho | Over 2 cho | Total |
|------|-------------|-------------|----------------------|------------|-------|
| 1913 | 2,003 | 1,816 | 1,079 | 546 | 5,444 |
| 1930 | 1,939 | 1,916 | 1,227 | 517 | 5,600 |

Further, the system of land tenure had altered little, though there was a tendency for the number of tenant farmers to decline, while those who owned part of their land and rented the rest grew in numbers. Rice remained the chief food crop grown, and well over half the cultivated area was under that crop. The annual production of rice in the later twenties was only slightly above the pre-war average, and by then Japan was relying to a steadily growing extent on imports of rice from Korea and Formosa to supply her rising population. There was also a much smaller and declining import of foreign rice, a product which is not congenial to the Japanese taste. After rice, the next most important cereal crops were wheat and barley; but the output of these taken together was only one-sixth as valuable as the rice production. Barley and certain other cereals, such as millet, actually declined during the twenties. On the other hand, both the area under wheat and its production, after falling until the middle twenties, rose in the later years of the decade. To a large extent barley and wheat are competitive for the same soil, though neither is competitive in that sense with rice, since they are grown as winter crops on the rice land. Barley is largely consumed by the poorer people who cannot afford Japanese-type rice; it is competitive with foreign imported rice rather than with Japanese rice; and the decline in its production

¹ 1 cho = 10 tan = 2.45 acres.

during this period was indicative of improvement in the standard of life. Agriculture extended considerably the range of its products in these years. More vegetables were grown and different varieties introduced, and there was an extension of fruit farming and of poultry farming. Compared with rice, however, these new crops played a small part in Japanese agriculture, but their growing importance was symptomatic of the rise in the incomes of the people. The main technical change introduced into Japanese agriculture, so far as the main cereal crops were concerned, was the increased use of artificial manures, but it appears that there were other improvements in methods of cultivation.

It might have been expected that the improvement in the economic position of the peasantry would have been substantial during this period in which the population, with its still highly specialized diet, was increasing very fast. During the Great War, indeed, the price of rice rose to high levels; but with the end of the boom the price collapsed, dropping from 55 yen a koku in January 1920 to 25.5 yen a koku in March 1921. The Government then introduced the Rice Act, which gave power to the Minister of Agriculture to "adjust supply and demand" by storing rice when prices fell very low and selling it when prices rose high. He was provided with a fund of 200 million yen for this purpose. The recurrence of several poor harvests and the absence of any exceptionally good ones caused prices to run at fairly high levels until 1927. In that year and subsequently four large crops occurred in succession; the 1930 crop was exceptionally heavy. In spite of Government purchasing under the valorization scheme, prices which had been falling steadily since 1927 collapsed. In August 1930 they stood at 31 yen a koku; in the next four months at 18 yen a koku. The peasants thus sustained a serious blow to their interests just when the world depression was about to destroy their other main source of income, raw silk.

A new factor intruded into the rice-growing industry during the first post-war decade. This was the extension of Japanese-style rice production in Korea and Formosa and the import of large quantities of that rice into Japan Proper. When Korea was annexed in 1910 her exports of rice were negligible, but, with encouragement from the Japanese Government, which had its eye on the future of the food supply, improvements were effected in methods of cultivation, especially by advances in irrigation, and there was an increased use of fertilizers. The cost of production fell; the area under cultivation increased, and, between 1910 and 1929, output grew by 30 per cent. Exports to Japan became important during the Great War and advanced steadily throughout the twenties. Similar developments took place, though on a smaller scale, in Formosa, and in

1927-29 these two colonies exported to Japan a quantity equivalent to between 12 and 14 per cent of her domestic production. This colonial import enabled Japan to meet the demands of the increasing population, and consumption per head was maintained throughout the twenties. There was, of course, a strategic as well as an economic advantage for Japan in fostering food production within her own Empire. But this development meant that the Japanese farmers themselves gained little advantage from the rising demand for rice, and certain Japanese groups¹ agitated in favour of restricting imports from the colonies so as to preserve the farming community, which is regarded as "the backbone of the nation, the source of its military strength and the guardians of traditional virtues against alien influences."² To have listened to such demands would, however, have produced trouble among the urban population, besides endangering both industrial development and strategic advantages.

For the second most important agricultural product of Japan, raw silk, the period between 1914 and 1929 saw a most remarkable development—indeed a threefold increase—in production. This growth had important repercussions on the farming industry, for it led to a corresponding rise in the demand for cocoons as well as for mulberry leaves. The number of farms raising cocoons grew steadily, and by 1929 two-fifths of all farming families were engaged in this occupation as a secondary employment. At the same time, since the reeling mills have to be located in the neighbourhood of raw material supplies, an additional demand was created for female workers. These came mainly from the peasants' families. The sale of cocoons, and the wages earned by his daughters in the reeling mills, contributed a very important part of the farmer's cash income, since much of his rice production was kept for his own use or, in the case of tenants, was passed to the landlords as rent. Cocoon-raising was particularly well adapted to Japanese agriculture, for it requires much skilled labour and little capital or material resources. At a time when very little additional land was available for cereal cultivation, this outlet was most valuable to the peasants. Such improvements in their standard of living as occurred in this period—and they can hardly be considered substantial—are attributable largely to fresh opportunities to engage in industrial occupations and, in particular, to participate in this rapidly growing silk trade. Any disturbance to the growth of that trade was bound to have disastrous consequences for them. During the war prices

¹ Notably the Imperial Agricultural Society (*Teikoku Nokwai*).

² E. F. Penrose in *The Industrialization of Japan and Manchukuo* (ed. Schumpeter), p. 145.

rose very steeply, and in 1920 the average export price per 100 kin was 1,191 yen. Although there was a sharp fall when the post-war slump came, recovery was rapid, and in 1923 it stood at 2,150 yen. After 1925, with the rise in the exchange value of the yen, prices fell, and in April 1929 the export price was 1,420 yen. This still compared favourably with an average of 800 to 900 yen in the years before the war. Then came the collapse of the American market, and by October 1930 the price was down to 540 yen. It fell to still lower levels in the next two years, and in June 1932 stood at 390 yen. The result was that the farmers found their cash incomes greatly diminished, just at a time when there had been a collapse of rice prices. The distress of the agricultural community had unfortunate political consequences. Responsibility for it was attributed by the farmers to the Government, and their discontent was communicated to the Army and was an important contributory cause in producing the overthrow of the "liberal" Government, and the transference of power to those who favoured military aggression.

One of the most considerable advances in food production was made by the fishing industry, which has long supplied Japan with her main animal foodstuffs. Koide's index of aquatic production (1921-25 = 100) rose from 43 in 1914 to 127 in 1929. All branches of the industry expanded; but the most striking development occurred through the introduction of floating canneries which operated in the distant waters of the northern Pacific and the Behring Sea. The products of these canneries were largely exported. The canneries were controlled by a few very great concerns, and thus presented a contrast to the small-scale organization of the coastal fisheries. Even in that branch of the industry, however, there were technical changes which brought economies; for example, the introduction of oil power for operating the boats.

From agriculture and fishing we may now turn to manufacturing industry, and, in particular, to the technical advances in that field. Here the most obvious development between 1914 and 1929 was the extension of the silk and cotton industries; but there was also a considerable enlargement in the scope of Japan's industrial activities, the significance of which did not become clear until the next decade. The great expansion of raw silk production has already been referred to. It was associated on the demand side with the growth of the American demand for silk for the manufacture of fully-fashioned hosiery. On the supply side, the industry in this period reaped the fruits of improved methods of production and of scientific research which had been introduced in an earlier time under the fostering care of the Government. These improvements covered the cultivation of mulberry trees, the production of

superior breeds of silkworms, new processes of egg-production and treatment, the introduction of multiple-thread reeling machines, and other detailed improvements in filature processes and organization. The general adoption of the practice of producing a summer-autumn cocoon crop, in addition to the traditional spring crop, meant that mills could work more regularly, while success in producing cocoons of standardized quality made possible the more rapid output of silk in the reeling mills as well as a rise in the quality of the reeled products. The output per reeling basin in the filatures increased by $2\frac{1}{2}$ times in this period as a result of these improvements. Meanwhile, the transformation of the reeling industry into a factory trade, which had gone a long way in the twenty years before the war, was carried further. By 1929-32, hand-reels were responsible for only about 4 per cent of the total production. In the filatures themselves a fourfold rise in output had been accompanied by an increase in their size, and a reduction in their numbers. The number of reeling basins per filature rose from 36 to 90 between 1911 and 1928.¹

There was an expansion also during these years in the silk-weaving industry. The narrow silk fabrics for Japanese dress continued to be woven on hand-loom installed, for the most part, in very small establishments, although during the twenties for some lines of product hand-loom were replaced by narrow power-loom. Meanwhile, the section of the trade that catered for export and used broad looms expanded. The earlier specialization on *habutae* disappeared, and new varieties of cloth, such as Fuji silk (made of spun silk) and crepe became more important. This section of the trade worked on a larger scale than that catering for the home market, and mills with over 50 looms appeared during this time.

In the cotton industry the pre-war growth continued. The number of spindles rose from 2,415,000 in 1913 to 3,814,000 in 1920, and after a setback through the destruction of some 900,000 spindles in the Kwanto earthquake of 1923, to 6,650,000 spindles in 1929. The increase in the number of mills and firms was not in proportion to this rise in capacity. In other words, the typical mill and firm became much larger.² Moreover,

¹ This applies to filatures with 10 basins and over. The number of filatures with less than 10 basins fell from 2,172 in 1913 to 294 in 1928, while the number with 10 basins and over rose from 2,529 to 3,215. In addition, there were still in 1928 62,000 hand-reeling mills with 85,000 basins. This compares with 142,000 mills with 175,000 basins in 1924 and 285,000 mills with about 350,000 basins in 1913.

² In 1913 there were 44 companies with 152 mills; in 1929 there were 59 companies with 247 mills. The average number of spindles per mill rose from 16,000 in 1913 to 27,000 in 1929, and the average number per company from 55,000 to 113,000.

there was a pronounced tendency towards consolidation, and by 1929 56 per cent of the spindles were in the hands of seven large concerns. The spinners, as we have seen, had originally supplied yarn for export to the domestic hand-loom weavers, and to small specialist weaving sheds. Later some of them established weaving sheds of their own to weave the yarn spun in their mills. Between 1913 and 1929 this tendency was carried much farther, and the combined spinning-weaving mill became characteristic of a large section of the Japanese cotton industry. The looms owned by the spinners rose from 24,000 in 1913 to 74,000 in 1929, and their cloth output increased nearly fourfold, compared with a yarn increase of under twofold. This development was associated with the falling off of yarn exports to Asia and with the rise of the export trade in piece-goods. The industry had, moreover, moved to a new plane of production. In 1914 four-fifths of the yarn produced consisted of low counts (20's and under). During the next decade and a half, while the production of the coarsest types (under 20's) actually declined, the production of medium yarns greatly expanded, with the result that in 1929 yarn classed as 20's and under accounted for only three-fifths of the total.

Meanwhile there had been developments in other sections of the Japanese cotton industry. The domestic weaving section, which used hand-loom for the production of narrow fabric for Japanese consumption, declined rapidly throughout this period; while the section composed of specialist weaving sheds was transformed. At the beginning of the period the smaller specialist weavers used either narrow power-loom or hand-loom. By the middle twenties narrow power-loom had largely replaced hand-loom in the manufacture of narrow cloth. The most significant development, however, was the appearance of larger specialist sheds (with 50 looms or over) equipped with wide power-loom for the manufacture of cloth for foreign markets. This section grew substantially throughout the twenties. Whereas the combined spinning-weaving mill concentrated largely on standardized fabrics, especially shirtings and sheetings, the specialist sheds used their wide looms for fancy goods. This dichotomy became more pronounced in the subsequent decade. Even in 1928-29, however, the specialist weaving sheds were responsible for just under two-fifths of the piece-goods exports in quantity and well over two-fifths in value.

Broadly speaking, then, the structure of the industry by 1929 was composed of (1) spinning mills, producing yarn for specialist weavers and to a diminishing extent for export; (2) large spinning-weaving mills which consumed a high proportion of their yarn output in the manu-

facture of standardized piece-goods, mainly for export; (3) medium-sized specialist weaving sheds producing fabrics for export on wide power-looms; (4) small weaving sheds with under 50 looms, equipped mainly with narrow power-looms and catering for the home market; and (5) the dwindling domestic industry, equipped with hand-looms.

Between 1913 and 1926 the technical efficiency of the Japanese cotton industry on its spinning side, as measured by the weight of output per operative, did not show any very marked improvement. In the weaving sheds progress was more substantial because of the changes already described. It was after 1926, however, that the most remarkable growth in efficiency occurred in both spinning and weaving. Although the improvement had gone some distance even by 1929, the full story of this rise in technical efficiency belongs to the subsequent period, and will be discussed later.

The woollen and worsted industry was of small account in 1914 except for the muslin branch which produced cloth for kimono. Even that branch of the industry, however, then depended on imports of yarns and tops, which were increasing steadily. The war gave a sharp stimulus to the industry as a whole. The demand for woollen cloth for military uniforms increased, and so the heavy woollen section expanded. At the same time, imports both of cloth and of yarns and tops were restricted. Hence the combing and worsted spinning branches, which had only just been created before the war, were given an opportunity to develop. When foreign sources of supply were restored after the war, the development was interrupted. But after 1925 it was resumed on a greater scale than before. The rising demand of the Japanese for Western dress stimulated the manufacture of serges and woollen cloth; while the manufacture of muslin for kimono continued to grow until 1927. The rise in the output of the main types of cloth is shown in the following table:¹

| Year | Muslin | Woollen Cloth | Serge for Japanese Dress | Serge for Foreign Dress | Total Value (including others) |
|-----------------------------|--------|---------------|--------------------------|-------------------------|--------------------------------|
| 1912-14 (annual average) | 58·3 | 1·6 | 8·1 | — | 30·7 |
| 1925 | 127·6 | 5·4 | 24·2 | 4·1 | 182·5 |
| 1929 | 165·6 | 9·0 | 28·1 | 19·6 | 210·5 |

¹ The figures show production in million yards, except in the last column, where they are in million yen.

Worsted spinning and top-making first became substantial industries in this period. The output of yarn rose from 21·2 million lbs. in 1921 to 64·3 million lbs. in 1929. Yet, in spite of this development of home production, imports of yarns continued to grow up to 1928, and at the end of the decade they were far greater than in pre-war years.¹ On the other hand, the import of tops fell very rapidly after 1925, and by 1929 they had become insignificant.² Imports of woollen and worsted tissues, which were very heavy in the early post-war years, also began to decline steeply after 1925, though in 1929 they were still greater than they had been before the war. The Japanese wool-using industry thus obtained the lion's share of the great increase in home demand for woollen and worsted goods that occurred during the twenties. The benefit that foreign manufacturers, of both tissues and semi-products, had received from this increased demand had been considerable in the early post-war years, but by 1929 the foreigners had lost the market for tops and their market for tissues and yarns was already endangered.

The branches of the industry which were concerned with tops, yarns, muslins and certain kinds of woollens, were in the hands of large firms, many of which were vertically integrated. In these branches progress throughout the twenties was by an enlargement of the scale of operations rather than by the increase in the number of producers. But in the production of serges, both for foreign and Japanese dress, and of other kinds of worsted materials, the small and medium mill became the typical units. It was in these branches that development was most rapid during the twenties, as we have seen. So, whereas in most of the textile industries, the part of the small technical unit was declining, in some sections of the wool-using industry its importance was increasing. This tendency became pronounced, it should be noted, in a period during which the hand-loom was almost completely superseded by the power-loom, driven by electricity. The typical weaving shed was able greatly to enlarge its production by this change in equipment without engaging additional workers.

It could be said, therefore, that between 1913 and 1929 the leading textile industries had greatly expanded and, having thrown off the last vestiges of primitive production methods, improved their efficiency. In spite of the rise of other trades, moreover, textiles as a whole had maintained their importance in the Japanese industrial system. In 1930 as in

¹ The number of spindles rose from 316,000 in 1922 to 520,000 in 1929. In the latter year 446,000 of these were in the worsted spinning branch and the rest in the woollen-spinning branch.

² The number of combing machines rose from 244 to 605 between 1922 and 1929.

1920 they accounted for about 25 per cent of the industrially occupied workers of Japan. Of the total number of factory workers in 1930, excluding those in factories with fewer than five workers, half were employed in textiles. About 45 per cent of these textile workers were engaged in silk reeling or silk spinning, 7 per cent were in silk weaving, and 31 per cent in cotton spinning and weaving. Japanese factory industry was, therefore, very highly specialized, and the degree of specialization had not decreased significantly at a time when the economy as a whole was growing quickly.

The metallurgical industries expanded after 1914, but by 1929 they were still of secondary importance in Japan's economy. Although the finished steel output rose from 255,000 tons in 1913 to 547,000 tons in 1919, and to over 2 million tons in 1929, Japan continued to rely on imports for a large part of her needs. Her dependence on foreign sources of supply was, however, decreasing. Before the war domestic production provided only 30 per cent of her needs; in the early twenties about 45 per cent, and in the later years of the decade about 70 per cent. For the pig iron used in the steel furnaces Japan was still far from self-sufficient. The production of pig iron doubled during the twenties, and was more than four times as great in 1929 as in 1913; but imports also greatly increased, and even in 1929 she was supplying only three-fifths of her needs—about the same proportion as at the beginning of the decade. Meanwhile a considerable import of scrap had become necessary; it reached about 500,000 tons in 1929. Imports of pig and scrap together in that year amounted to 1,300,000 tons out of a domestic consumption of 2,300,000 tons. About 90 per cent of the ore needed for the blast furnaces was imported, mainly from China and Malaya. Before the war most of the pig iron and ingot steel was produced in the Government's works at Yawata. During the war a number of private works were established or extended; but even in 1929 the Yawata works were responsible for the larger part of the output of pig iron and ingot steel, and for a high proportion of the finished steel. The remainder was in the hands of a few great concerns associated with the *zaibatsu*.

In the coal-mining industry there was a rapid increase in output during the war, but later development was comparatively slow. Production rose from 21 million tons in 1913 to 31 million in 1919. Then a setback occurred, and even in 1929 output reached only 34 million tons. Japan was then on balance a net importer of coal, especially of coking coal required in the ironworks. The copper industry, which throughout the Meiji era had been an important exporter, made even less progress. Production was stationary over this period, and Japan in the twenties found

that it paid her to import large quantities of copper from cheaper sources of supply.

In shipbuilding, Japan's post-war experiences resembled those of many other nations. During the Great War her industry became substantial, and in 1919 the gross mercantile tonnage launched from her yards was 650,000, as against a mere 85,000 tons in 1914. But Japanese costs, compared with those of other nations, were high. With the onset of the depression and with the return of foreign competition, the industry entered upon a long period of decline, during which the number of workers engaged in yards capable of building ships of 1,000 tons and over declined by nearly two-thirds. Even in 1929, which was a relatively good year, the mercantile tonnage launched was only 165,000 tons. Naval building was, of course, affected adversely by the Washington Treaties. Thus the heavy industries on the whole lagged behind the development of the Japanese economy; and even the iron and steel trade which made considerable progress had not by 1929 achieved that importance among manufacturing industries that it held in other industrial countries. Not unnaturally this led certain foreign observers to conclude that Japan's industrial future lay almost exclusively in the lighter industries, especially the textile industries, and that her deficiencies in the field of heavy industry meant that there was little likelihood of her attaining "a position of major importance as a manufacturing nation."¹

In certain branches of engineering, progress was rather more rapid. It had been stimulated by the absence of foreign competition during the war, by the world demand for munitions, and by the growth in Japan's own need for equipment. The slump after the war brought ruin to many of the new producers, but certain branches, especially those concerned with prime movers, electrical machinery and apparatus, textile machinery, cycles and scientific instruments, grew substantially. Throughout the period, however, Japan continued to rely largely on foreign sources of supply for much of the equipment which her industries required. In 1928-29 her imports of machinery amounted to an annual average of well over 100 million yen a year, about three times as much in value as before the war; while her imports of the whole commodity-group that is composed of instruments, clocks and watches, vehicles, vessels and machines amounted to about 175 million yen a year, or four times the pre-war value. Nevertheless, the steep fall after the middle twenties in the imports of many classes of these goods testified to the growth in her own engineering trades. This fall was particularly marked in railway rolling stock, steam prime movers, certain kinds of electrical

¹ Cf. J. E. Orchard, *Japan's Economic Position*, pp. 482-83.

apparatus and machinery, textile machinery and printing machines. In the manufacture of pedal cycles, which had become a most important means of transport in Japan, she built up a large industry. After a short period of reliance on imported parts in the early twenties, she became able to supply her entire need for bicycles. For certain types of machinery and vehicles, however, she became more than ever dependent on foreign countries to supply her own increasing needs. This applied to machine tools, automobiles and, especially to automobile parts and internal combustion engines, the imports of which grew very rapidly after the establishment of assembly plants in Japan by General Motors and Ford. Japan's larger engineering products were made in a comparatively few great works controlled by the *zaibatsu*; but in the lighter end of the trade (e.g. cycles and electric bulbs) numerous small establishments flourished, and many small workshops engaged in the manufacture of parts appeared in the neighbourhood of the large factories which they served.

The only other industry which need be included in this brief survey is pottery, an ancient industry which even before the war had developed new branches engaged in a substantial export trade. This period saw the appearance in the industry of a structure characteristic of many Japanese consumption goods trades. At one end of the trade was the branch concerned with the manufacture of traditional tableware for Japanese use. This continued to be conducted on a very small scale, and remained associated with particular localities—fine artistic wares with Kyoto, and other high-grade specialties with Arita. Another important traditional centre, Seto, produced goods both for the home market and for export; while in Nagoya there were a few large factories turning out fine china for export and also many smaller ones which produced the lower qualities of earthenware and china. In Seto and Nagoya the small-scale section of the industry had developed an intricate organization; for the process of production was split up among numerous small body-makers and decorators, each with narrowly specialized functions. In addition to the tableware section, there grew up during the twenties a few large concerns producing heavy porcelain and electrical insulators. It was estimated that in 1931 over half the 40,000 workers in the pottery industry were in workplaces employing under five workers, while at the other end of the scale there were 6,000 workers engaged in 20 factories.

Attention has necessarily been concentrated in this chapter on the manufacture of goods that enter largely into international trade. But it must not be forgotten that a large part of the goods and services produced in Japan remained peculiar to that country. Along with the development of new industries of Western style, there continued to flourish numerous

small-scale trades which provided for the special wants of the Japanese purchasers. Some indication of the importance of these has been given in the description of the textile and pottery industries. But there were many others which, unlike the textiles, had been almost completely unaffected by contact with the West—the *geta*-making trade, the house-building trade, the Japanese-style dress trade, the foodstuffs industry and many others. The development of great new industries, and the appearance of large factories in the cotton spinning, engineering, iron and steel and pottery industries, had not meant the general disappearance of older trades or of older methods of production in them. Thus, by the twenties, every observer of Japan's industrial system was impressed by the contrast between large-scale enterprise in one part of the economy and small-scale enterprise, often of an unfamiliar kind, in the rest, just as the social observer was surprised by the dichotomy, even among city dwellers, between the workaday life in factories and offices, and the traditional domestic life of the people.

Chapter VIII

Economic Policy and the Zaibatsu, 1914-32

The Japanese Government, as we have seen, played an important part during the Meiji era in laying the foundations for rapid industrialization and also in initiating and supporting industries or services which were necessary to realize its political and economic objectives. Yet the number of enterprises in the field of manufacturing industry which were directly administered by the State were few at the end of the Meiji era, and their relative importance diminished as private industry developed. Certain Government monopolies, established for fiscal reasons in the salt, tobacco and camphor industries, were continued; a great part of the railway system remained under Government control; and there were Government dockyards and munitions plants. Yet, in the twenties, the only major manufacturing industry in which the State had the predominant part was the iron and steel industry in its primary branches. Even though the relative importance of the Government's Yawata Works was diminishing, as late as 1931 it was still responsible for over three-quarters of the pig iron and half the ingot steel produced in Japan. In the carrying trade the Government continued to own and operate a number of steamships; for instance, it controlled a company founded in 1919 to take over tramps from shipowners who at the end of the war-time boom found themselves with a large surplus tonnage. Thus the undertakings actually owned and operated by the State were confined to those which in all countries are considered to occupy a special position (such as the railways), or were necessary for national security and unlikely in Japan to reach a substantial size under private control (such as the iron and steel industry), or were valuable for fiscal reasons (as salt and tobacco).

Apart from these State undertakings, however, there were a number of other concerns to which the State provided part of the capital either directly or through the medium of the special banks, particularly the Industrial Bank of Japan. Most of these concerns were in industries of strategic importance. They included enterprises on the Continent of Asia or in the Japanese colonies, and these became increasingly important in the second and third decades of the century. The chief of them was the

South Manchuria Railway Company which controlled, apart from the railway itself, the most important large-scale enterprises in the railway zone.

The direction of industrial development was also influenced by other forms of State intervention. An account has already been given of the inception of the policy of subsidizing shipping, shipbuilding and private railways in the homeland, and sugar production in Formosa. This policy was continued in the post-war period, and the scope of Government subsidies was extended after the war to include certain kinds of chemical production, such as soda ash and dyestuffs, and also the exploitation of the petroleum resources of Karafuto (South Saghalien). Government help to the iron and steel industry was extended by a law of 1926, which granted producers exemption from income tax and excess profit tax and at the same time increased the rate of subsidy paid for the production of certain classes of iron and steel. The largest sums disbursed as subsidies in the post-war period were for the benefit of agriculture. The financial help given by the Government for the purposes of maintaining the prices of rice and silk in years of depression have already been referred to. The greater part of the money went, however, towards improvements in farm lands and in the rural drainage and water systems, in assisting tenants to acquire holdings, or in relieving them in times of great difficulty. Measures for farm relief became particularly prominent in the years of the world depression (1930-32), and large sums were then provided for emergency relief works. The remaining subsidies were small in amount, and consisted of grants for the encouragement of co-operative societies and of guilds of small producers and traders and for the development of certain export activities. Grants were given in connection with the Export Compensation Scheme, similar to the British Export Credits Guarantee Scheme.

Thus, except in a few fields of activity, subsidies played only a small part in the period from 1914 to 1931 in affecting the direction of Japanese economic development. In 1931 the total disbursement was only 61 million yen, of which more than two-fifths went to agriculture. This sum represented only about 3 per cent of the total budgeted expenditure of the Government under its General Account and Special Railway Account.

Tariffs, likewise, were not of outstanding importance in determining the growth of industry. It was not until the first decade of the present century that Japan found herself able to work out a tariff free from the restrictions imposed by earlier treaties. The principle adopted in framing the new tariff, which came into force in 1911, was that industrial raw materials which could not be produced easily in Japan should be admitted

free or at a low rate, that low duties should be imposed on semi-manufactured goods, and that moderate duties should be imposed on finished manufactured goods. Luxury products were covered by high duties in the interest of the balance of payments. This general principle was modified in its application through agreements with certain foreign Powers, and one result of these agreements was that, in practice, iron, steel, machinery and certain kinds of textiles were admitted at relatively low rates of duty. In 1914 the ratio of customs revenue to the value of dutiable imports was just under 20 per cent. This average ratio, of course, disguises the fact that clothing and certain finished consumer goods were subjected to high duties (40 to 50 per cent *ad valorem*), and that certain foodstuffs, notably sugar, were highly protected.

During the war many duties were lowered because of the scarcity of goods in Japan, and the rise of prices greatly reduced the protection offered by the specific duties. As a result, in 1919 the ratio of customs revenue to the value of dutiable imports had fallen to under 9 per cent. When the restoration of foreign sources of supply led to serious competition in the Japanese market, duties were raised on the products of the most vulnerable industries, especially chemicals and metals. The Government also forbade the import of dyestuffs save under licence, a policy which the British Government also adopted at this time. After the earthquake of 1923 *ad valorem* duties of 100 per cent were imposed on 120 luxury products in the interest of the balance of payments. In spite of these increases in the tariff, and of the fall in prices, the ratio of revenue to dutiable imports rose to only 13 per cent in 1925. Meanwhile, the conventions with foreign countries signed in 1910 had expired, and in 1926 there was a complete revision in the duties. This determined the basis of the tariff for the next decade. The most important effect of the revision was to give much greater protection to certain new industries, especially the woollen spinning and weaving, top-making and rayon trades. On balance, however, Japan still remained a country with a moderate tariff, and in 1929 the ratio was only 17 per cent. The Minseito Government reduced duties on some semi-manufactured goods, such as cotton yarn and cement, in 1930 and 1931. With the fall of that Government a new epoch in economic policy began in which the rôle of tariffs was of little importance.

To sum up the effects of the tariff, it can be said that until 1920 it had very little influence on the economic structure of the country, for before 1911 Japan's freedom to adopt protective tariffs was limited by treaty, and between 1914 and 1920 normal trading conditions were so disturbed as to reduce the tariff to a position of minor significance. Even throughout the

next decade, moreover, the importance of the tariff in its effects on foreign competition in the home market was overshadowed by exchange fluctuations, and it was never more than a secondary weapon in the armoury of economic policy. In only a few industries, indeed, as in the iron and steel, sugar, copper, dyestuffs and woollen industries, was the tariff ever of great significance.

Other aspects of economic policy deserve closer attention. Numerous forms of Government-sponsored organization were created, or fostered, during the period now under consideration to promote the development of particular industries. The Government took an active part in encouraging the development of the great fishing industry, and the prefectural authorities were given powers to supervise methods of fishing and of sale. Further, the Government applied to this industry a device common to Japanese economic life as a whole, namely the creation of associations of producers to assist in the supervision and guidance of those engaged in the trade. All occupied in fishing were compelled to join the *Suisan Kumiai*¹ of their neighbourhood, and one of the statutory obligations of these bodies was to inspect the produce destined for export. Government direction and control also did much to increase efficiency in the raw silk industry and to provide for the production of standardized filaments. Government grants and loans at low rates of interest were furnished for the purpose of increasing rice production both in Japan Proper and in Korea. In manufacturing industry, save in branches deemed to be of strategic importance, the Government's activities were less effective. For many years efforts were made to improve the quality of goods for export, and during the Meiji era regulations had been drawn up to provide for the inspection, by guilds of exporters, of certain classes of exports. During the Great War and the post-war period the range of goods covered was extended. The Export Guild Law and Manufacturers Guild Law of 1925 provided for the setting up of voluntary bodies with the function of maintaining standards of quality, and some of these guilds were recognized as official authorities for the compulsory inspection of goods. The policy was carried further in a consolidating measure of 1928 (the Staple Export Goods Control Regulations). This specified the goods of which the export was not permitted until they had been inspected by an authorized body. Sometimes the authority consisted of guilds of producers or traders; sometimes of Government officials. Another purpose behind the Government's decision to encourage the establishment of export guilds was the promotion of co-operation among the smaller exporters for the development of foreign markets. Much was hoped of this at the time

¹ Fishery Guilds.

when the law was passed, but during the twenties the results were negligible, largely because of the conflict of interest between large and small merchants in the majority of trades. As we shall see, however, these guilds came to the front in the changed trading conditions of the next decade.

The Government's efforts to promote co-operation among manufacturers were rather more successful. As early as 1884 an Act had been passed authorizing the formation of *Dogyo Kumiai* (Trade Associations) in industries producing important products, and a number of these were in fact formed. They carried on the usual functions of trade associations and concerned themselves, like export guilds, with the inspection of goods and with issuing certificates of quality. These *Kumiai* were composed of all kinds of firms concerned with a particular commodity, both large and small manufacturers and also dealers, and in the small-scale trades they were dominated by the merchant employers. In the early post-war period the Government became anxious to encourage co-operative effort among small manufacturers themselves, so that they might achieve some degree of independence of the merchants. So, in 1925, the manufacturers in specified export industries were authorized to form guilds with functions of inspecting products, providing joint equipment, and arranging for joint purchases and sales. The appropriate Minister could compel non-members to abide by the guild's regulations. These *Kogyo Kumiai* were the complement of the export guilds, and they received small grants from the Government for the purchase of joint equipment. By the end of 1930 111 such guilds had been formed, but it seems doubtful whether in this period they really did much to modify the existing organization of industry or to improve its efficiency. As with the export guilds, however, the *Kogyo Kumiai* later on formed a useful medium through which official control could be exercised. Among the agricultural communities encouragement was given to the *Sangyo Kumiai*, or co-operative societies, which carried out functions of co-operative purchase, sale and credit. They were given assistance—in the form of cheap credits and subsidies—by the central Government, and it seems that they played an increasingly important part in the agricultural life of Japan.

Government attempts to control and direct industrial life by edict were thus limited in scope and tentative in method. Apart from the strategic industries, in which there was active participation by the State, Government intervention seldom went beyond the encouragement of co-operation among producers and traders, and this encouragement was not always whole-hearted. The greatest measure of success seems to have been reached in agriculture (including silk-raising) and fishing, and in the in-

dustries associated with them. In manufacturing industry little was achieved outside the spheres mentioned, and only the small firms were in the least affected by the legislation. Japan's industry had risen during an era of economic liberalism, and direct Governmental intervention after the initial phase seldom went beyond what was considered appropriate to such a régime. The absence of direct intervention on a large scale did not mean that the desired objectives could not be reached in other ways. Japanese statesmen had to deal with a society that was very different from Western societies, and in the pursuance of their economic objectives they had to use different means. The means that were employed, and indeed Japanese economic policy as a whole, cannot be understood without some knowledge of the enterprises that were being built up by the mighty business groups popularly known as the *zaibatsu*. References have been made to these groups in earlier chapters; but we must now consider them in some detail.

The term *zaibatsu* means literally "money-cliques," and is used to signify certain great Japanese business houses with extremely widespread interests. The four major *zaibatsu* are Mitsui, Mitsubishi, Sumitomo and Yasuda. These concerns played a vital part in the economic rise of Japan, and they had come to occupy by the later twenties a position in the Japanese economy for which there was no parallel elsewhere in modern times.¹ Their importance was not limited to the economic sphere, for they had made their influence felt in politics. The Governments of the early years of Meiji had been faced with grave difficulties in executing their policy of Westernization, for there was at that time no large middle class with financial resources, with experience of modern industrial and commercial techniques, or with the habit of initiative. It was not enough to strike off the shackles of the old régime; positive measures had to be taken to ensure that the opportunities for development were seized and that the strategic interests of the country were observed in any industrial growth that occurred. The newly created bureaucracy might plan the objectives of economic policy; it could hardly concentrate in itself the detailed administration of economic resources. Fortunately there were available a few business families which for decades, even centuries, had been engaged in banking and commerce on a large scale, and had served as agents of the *daimyo* in the management of their revenues. Some of these families had helped to finance the political movements that had led to the Restoration. The new Meiji Governments naturally turned to these families for financial help in tiding them over their initial difficulties, and

¹ The Fuggers of Augsburg may be compared with them in some important respects, but it would be misleading to suggest that there was a close resemblance.

they looked to them to carry out any financial or commercial operations, or to launch any new enterprises, which were considered necessary as part of the general policy. Thus these families, together with some recruits from the ranks of the *samurai*, became agents for the execution of the Government's economic policy and this soon led to a concentration of economic power in them. A concentration of this sort is likely to occur whenever a country with a hitherto primitive economy begins a career of industrial development, especially when the initiative in this process rests with the State.

During the Meiji era close connections were established between particular statesmen, who had definite policies to carry out, and particular business families who could provide resources and means to assist them. In return for the financial assistance which they gave the Government, the *zaibatsu* from time to time acquired State properties at low prices and received valuable contracts. They earned large profits from underwriting Government loans. For instance, Marquis Inouye¹ worked in close association with Mitsui, and Mitsui, in return for the help it gave him, obtained possession on favourable terms of properties that had belonged to the Shogun and the clan governments. This was the origin of Mitsui's well-known Miike coalmining concern. Government purchases and sales of materials in foreign countries in early Meiji were made through Mitsui, which thus laid the foundations of its foreign trading activities. These later became the main province of the great Mitsui Bussan Kaisha. Mitsubishi, founded by a *samurai* named Iwasaki, acted as agent for the Government in carrying supplies to Formosa in the troubles of 1874, and its existing small fleet of ships was supplemented by the addition of thirty steamers bought from abroad for this purpose by the Government. This was the beginning of the great enterprise that finally emerged as the Nippon Yusen Kaisha. In 1890 Mitsubishi reluctantly purchased from the Government, then in financial straits, a tract of waste land near the Imperial Palace. This has since become one of the most valuable sites in Tokyo, for the famous Marunouchi business quarter is located there. Just as Mitsui was associated with Marquis Inouye, of the Seiyukai political party, Mitsubishi was associated in its early years with Count Okuma, who led the Kenseikai party, later known as the Minseito. The experiences of the other *zaibatsu* in Meiji times were not dissimilar. All of them played an important part in financing the foreign wars in which Japan was engaged, and in the development of the colonies. The *zaibatsu* helped to capitalize, often jointly with the Government, enterprises of strategic importance, at

¹ A leading statesman of the Meiji era, a member of the Choshu clan, and one of the famous *Genro* (Elder Statesmen).

home and in the colonies and Manchuria, and a very large section of the new large-scale industry was either developed by them or brought under their control. From time to time, generally in periods of financial crisis or of slump, certain older business families failed. Their properties were then usually acquired by one of the *zaibatsu*; for instance, many of the Suzuki properties passed to Mitsui after the financial crisis of 1927. We have seen in an earlier chapter how the *zaibatsu's* financial power, exercised through their banks and trust and insurance companies, increased during the twenties along with the consolidation of the banking system. Indeed, just as the Great War saw a large extension of their enterprises in the heavy industries, so the post-War decade saw a marked growth in their commercial and financial interests.

By 1929 the *zaibatsu* had reached the zenith of their power and influence. Many rivals had been weeded out during the difficult post-war period, and the setback suffered by the militarists after 1921 greatly strengthened their own political position. Party government was making headway at this time, and the power of the Diet was increasing. The *zaibatsu*, being intimately associated with the politicians, became very important influences on policy. Thus whereas in early Meiji days they could be regarded as agents of the Government, though probably never as merely passive agents, by the later twenties they had reached a position in which they could to an increasing extent impose their wishes on the Government. The relations between the great merchants and those who were nominally the governing classes, relations of which the old chroniclers had complained in later Tokugawa times, were again appearing.

There were, of course, other large business concerns in Japan that were independent of the great *zaibatsu*; for instance, Okura, with large interests in trade, mining and textiles; Asano in cement, mining, iron and steel and heavy engineering; Furukawa with copper mining and refining, and electrical plant. But the *zaibatsu* by 1929 occupied a special position, not merely because of the magnitude of their interests and their close and peculiar relations with the Government, but also because of the very wide range of their interests. These comprised mining, metals, mechanical engineering, electrical apparatus and machinery, textiles, paper, cement, glass, chemicals, shipbuilding, shipping, foreign and domestic trade, banking and insurance. It was difficult, indeed, to find any form of large-scale economic activity in which the *zaibatsu* had not an important share. Further, the fact that they were at once predominant in finance and also in industry and commerce gave them an enormous advantage over specialist concerns. As was shown in the chapter on banking, the structure of the capital market in Japan and the habits of investors place obstacles

in the way of raising capital by public issue. Enterprises in need of new capital must in general get it by selling their securities to banks or other financial institutions. Those who control these institutions can, therefore, play a dominant part in the development of industry, and an industrialist who has no bank under his control is liable to fall under the control of some great financial group, which, because of its associated enterprises, may be a rival. In the later twenties some of the *zaibatsu*, particularly Mitsui, were penetrating even into trades which were the province of small producers. These small producers were normally financed by merchants who were themselves often dependent, especially if they engaged in foreign trade, on the financial resources of the *zaibatsu*. But at this time Mitsui's trading company (Mitsui Bussan Kaisha) was competing vigorously with the merchants in their own sphere. It had greatly extended its practice of advancing funds to small producers and of giving them technical advice, and in this way it was able to bring them under its control. Even trade in minor agricultural products was being affected by this policy. Thus the power of the *zaibatsu* did not stop short with large-scale industry and trade, but penetrated deeply into the great mass of small-scale enterprises.

The various *zaibatsu* were keen rivals with one another. Although the emphasis of each group was rather different, yet there were many spheres of industry, commerce and finance in which they competed. Their rivalries extended also to the political sphere, as we have seen. Nevertheless, they tended to make a common front when faced with the militarist groups, and they sometimes co-operated with each other in particular branches of enterprise. Thus they invested in each other's trust companies, and they helped to capitalize jointly, along with the semi-official Industrial Bank, electricity-generating companies and colonial enterprises of national importance. The internal organization of the *zaibatsu* is of some considerable interest; for it has peculiar features that are characteristically Japanese and were derived from the social organization of feudal times. An examination of these features would, however, take us beyond the scope of this work, and the curious may like to pursue their study elsewhere.¹

¹ For instance, "The Concentration of Economic Control in Japan," by the present author, in the *Economic Journal*, June 1937.

Chapter IX

Reflation and Preparation for War, 1932-37

AFTER the fall of the Minseito Government and the abandonment of the gold standard in December 1931, the key position of Finance Minister was filled for the next four years by Mr. Takahashi, who had on previous occasions shown his financial skill, first as long ago as the Russo-Japanese War and, more recently, during the financial crisis of 1927. The restoration of the militarists' influence over policy, which had already been demonstrated by the course of events in Manchuria and was to show itself in a steadily increasing pressure for larger armaments, meant that there was no possibility of pursuing deflation further. Even if the new path had not been marked out for him by others, it seems that Takahashi had fully realized that the strain imposed by deflation on the social and economic structure of the country was too great for it to bear. He proposed, therefore, to follow a policy of reflation which, he thought, would in the course of four years or so bring economic recovery to Japan, without at the same time involving her in the danger of cumulative inflation.

This policy involved, first of all, an increase in Governmental expenditure, financed almost entirely by borrowing, and easy credit conditions. The form of the new expenditure was determined by the demands of the military and by the new commitments in Manchuria, and the result was that the proportion of the total expenditure that was spent on the Army and Navy rose from 31 per cent in 1931-32 to 47 per cent in 1936-37. During this time the Government defrayed about one-third of its expenditure by loans, and the internal national debt was increased from 4,480 million yen at March 1931 to 8,520 million yen at March 1936. The external debt diminished slightly during this period, and was only 1,330 million yen at this latter date.¹ Takahashi refused to raise substantially the amount spent on relief measures by the Ministry of Agriculture and the Home Department, since he argued that the general rise in Governmental expenditure would bring general benefits to the economy. At the same time he refused to increase taxation except by a modest excess profits tax, because he thought that any increase would discourage business

¹ This was the amount at par of exchange; the burden had, of course, been increased by the depreciation of the yen after 1932.

revival. Thus, while he aimed at raising national expenditure by the amount required to restore equilibrium, he was determined not to press Government expenditure beyond the point at which inflationary tendencies would begin to appear.

He pursued his policy successfully up to the time of his assassination by the military in the revolt of February 1936, and by then the economic recovery at which he had aimed had been largely achieved. He has been much praised for the wisdom of his policy, which, it is alleged, was brought to ruin at the end only because of the revolt of the militarists against it. Yet if Inouye and his "orthodox" financial policy are to be condemned because he did not realize that deflation would provoke unendurable social distress and an inevitable political upheaval, Takahashi may be charged with an almost equal lack of realism and foresight. He had cheerfully acquiesced for four years in a financial policy which made it possible for the militarists to pursue their ambitions. He knew that in them he was dealing with a group which did not easily recognize economic limitations on strategic designs, and that their appetite would grow with any effort to satisfy it. Consequently when the time came to call a halt on economic grounds, it was to be expected that the militarists would refuse to comply and that they would deal with Takahashi as they had dealt with Inouye. Judged solely from the standpoint of what we should now call a "full employment" policy, Takahashi was amply justified in introducing measures for raising the public expenditure. But since the additional expenditure was of such a nature as to promote the strategic plans of the militarists, and since in the last resort policy was determined by them and not by the requirements of sound finance, the outcome was necessarily disastrous.

Before examining the effects on industry and trade of reflation up to 1936, we must glance at the cheap money policy that was followed during this time and also at the repercussions of the policy as a whole on the financial system. The discount rate of the Bank of Japan on commercial bills, which stood at 6.5 per cent in November 1931, was lowered by stages to 3.65 per cent in July 1933, and, what is more important, the interest rate of the Treasury Deposits Bureau was cut down during 1932 from 4.2 per cent to 3 per cent. At the same time the maximum fiduciary issue of the central bank was raised from 120 million yen to 1,000 million yen, and the note issue rose steadily from 1,330 million yen at the end of 1931 to 1,870 million yen five years later. Meanwhile, the exchange value of the yen was allowed to slide down from par in December 1931 (49.85 dollars = 100 yen) to 20.70 in December 1932. After the revaluation of the dollar in the spring of 1933, the rate rose and reached

30.25 in December of that year. From this time it remained stable for the next five years, and became linked with sterling at 1s. 2d.

Wholesale prices which averaged 70 points in 1931 (1929 = 100) began to rise during 1932; but it was not until the end of 1936 that they recovered virtually to the 1929 level. Retail prices which had fallen from 91 in 1929 to 68 in 1931 (1926 = 100) rose steadily after that year and reached 80 in 1936. The course taken by wages is particularly interesting. The Bank of Japan's index of wage rates fell, as might have been expected, during the period of the depression, and its index of actual earnings declined even more steeply. After 1932 the latter rose only slightly, while the former continued to fall.

BANK OF JAPAN'S INDICES OF WAGE-RATES, EARNINGS AND RETAIL PRICES¹

(1926 = 100)

| Year | Wage Rates A | Actual Earnings B | Retail Prices C | Real Earnings $\frac{B}{C}$ |
|------|-----------------|----------------------|--------------------|--------------------------------|
| 1929 | 98.6 | 103.9 | 91 | 114 |
| 1931 | 91.3 | 90.7 | 68 | 137 |
| 1932 | 88.1 | 88.1 | 69 | 128 |
| 1936 | 80.7 | 91.8 | 80 | 115 |

It will be observed that average money wages fell steeply during this period of deflation, and that in 1936, after a period in which production and employment rose very substantially, the real earnings of the workers were no higher than they had been in 1929. These general indices do not reveal, however, the diversity in wage movements experienced by different industries. Thus, in all the heavy industries (engineering, shipbuilding, metal manufacture) which grew rapidly, partly because of rearmament, the workers, especially skilled workers, improved their position, and their real wages were much higher in 1936 than they had been in 1929. On the other hand, the real wages of men in the non-

¹ The Bank of Japan's indices of wage-rates and actual earnings cover only factories employing more than 50 (or in some cases 40) workers. For the method of compilation, see Uyeda, *The Small Industries of Japan*, pp. 298 *et seq.* Since these indices do not cover wages paid in small workplaces, they are not wholly representative of conditions in Japanese industry and tend to give too favourable a view of them.

munitions industries and of women, especially those engaged in textiles, deteriorated. In cotton spinning and silk reeling, for instance, real wages in 1936 were scarcely 70 per cent of those of 1929. Professor Uyeda, in commenting on the trend disclosed by statistics of real wages, reached the conclusion that observations of actual facts bore out the truth of the statistical evidence and that after 1931 "earnings did not increase sufficiently to compensate for the rising cost of living, and real wages were, therefore, on the average definitely falling."¹

A full explanation of what occurred requires an examination of first the changes in industrial production, secondly the trends in agriculture, and thirdly the movement of foreign trade. The index of industrial production rose steeply after reflation was introduced. Between 1931 and 1936 the index (1931-33 = 100) rose from 91 to 149. But the rise was much steeper for producers' goods than for consumers' goods; in 1936 the index stood at 172 for the former, but only 125 for the latter. Thus the greater part of the increased industrial production was not in the form of goods available for consumption, but consisted of munitions and capital equipment for industry at home and in Manchuria. In the second place, the boom did not communicate itself to agriculture. The price of rice did not recover to the 1929 level until 1935, while the price of raw silk, and so cocoon prices, remained low throughout the period. Even in 1936, after a slight improvement had set in, raw silk prices were still only a little above the 1932 level, and were not much more than half those of 1929. Thus a very large part of the economy remained depressed in spite of the boom in manufacturing industry. This has a direct bearing on the movements of wage rates. The members of agricultural families were driven by the depression to offer themselves in increasing numbers for industrial employment in the towns. The girls who had previously found jobs in the silk-reeling mills in rural areas now competed for jobs in other textile factories, especially the cotton mills. Yet, as technical improvements had reduced the number of workers required for a given output in the cotton industry, the demand for workers in that trade did not rise to an extent corresponding to the increase in output. Thus the persistent agricultural depression impelled a large-scale transference of workers from agriculture to industry and from rural to urban trades, and it exercised a powerful influence in keeping down industrial wages.

¹ T. Uyeda, *The Small Industries of Japan*, p. 306. Professor Uyeda also states (p. 303) that in 1936 "the position [of the standard of living of the industrial workers] is not as good as that in 1924." There are some difficulties in interpreting the statistics quoted above, but in spite of all the qualifications that have to be made, the general conclusion seems well established. For these qualifications, see Uyeda, *op. cit.*, p. 300.

Thirdly, although the fall in the yen helped to raise the exports of manufactured goods, and although exports as a whole increased during this period, the terms of trade moved strongly against Japan. The following table demonstrates this. In interpreting it, however, one must remember that as Japan's industrial efficiency was rising at this time, the fact that she had to offer more export goods for a given quantity of imports does not necessarily mean that she had to devote a *correspondingly* greater amount of her resources to the production of those export goods.

TERMS OF TRADE

| Year | Index of Import Prices | Index of Export Prices | Terms of Trade |
|------|------------------------|------------------------|----------------|
| 1928 | 100 | 100 | 100 |
| 1932 | 65 | 57 | 88 |
| 1936 | 98 | 68 | 69 |
| 1937 | 126 | 76 | 63 |

Finally, in the course of the period from 1929 to 1937 the population rose from 63 to 71 millions, and so part of the increase in consumer goods was required to meet the needs of the additional population, and was not available to raise consumption per head.

Thus reflation and the depreciation of the yen enabled Japan to create a condition of virtually full employment, to redistribute her resources by transference from agriculture to industry, and to enlarge her production and foreign trade. It was because her resources were not fully employed at the beginning of this process, and because of the chronic depression in agriculture, that the increased loan-financed Governmental expenditure did not produce symptoms of inflation. At the same time it was because the increased production took the form of munitions, new capital equipment for home industry, and investment goods for Manchuria and, to a lesser extent, because of the worsened terms of trade and of benefit bestowed by rising prices on the profit earner, that this increased employment of resources did not lead to any improvement in the workers' general standard of life.

This process of development and adaptation was affected by the rise in the efficiency of Japanese industry during the thirties. The point will be discussed in the next chapter; but it must be mentioned here because, clearly, the reduction in costs so caused contributed to the rise in output and exports that occurred during this time. Had costs not been reduced

by technical improvements, it is probable that equilibrium in the balance of payments could have been achieved only by a further depreciation of the yen, and that either the development of Manchuria and rearmament would have progressed more slowly, or the standard of life would have been forced down far lower.

The behaviour of the banking system in response to the Government's deflationary policy throws considerable light on the relations between the ordinary banks and the Governmental financial institutions. In the first place, it is observed that the bulk of the Government bonds issued between 1931 and 1936 were taken up by institutional lenders, namely the ordinary banks, savings banks, the special banks and the Bank of Japan. The ordinary and savings banks together absorbed about two-thirds of the amount issued, and they held by the end of February 1936 some 43 per cent of the Government bonds outstanding, while the Treasury Deposits Bureau held well over 20 per cent. By the end of 1936 the proportion of Government bonds to total deposits was about 23 per cent in the case of the ordinary banks and 55 per cent in the case of the savings banks. That the Government had to rely on the banks to take up its issues could not be regarded as ominous, as it would in some other countries in peace-time. It was a necessary consequence of the structure of the capital market in Japan and of the disposition of ordinary investors. As we have already seen, the latter are accustomed to entrust their savings to the banks, trust companies or post office savings system, which then invest these resources, and the increasingly large holdings of these bonds did not in the least disturb the confidence of the bank depositors.

It might have been expected, moreover, that the ordinary banks would have followed the lead of the Government and the central bank in extending credit on a larger scale to their clients, and that this would have set going an inflationary movement. But no such movement occurred, and it appears that the ordinary banks, instead of following the lead given by the Government, rather pursued a credit policy appropriate to a deflationary period. As we have seen, the central bank has never had much influence over the credit policy of the other banks, and during this time the latter remained adherents of Inouye's financial principles and were sceptical of Takahashi's policy. They weeded out their less sound debtors and were cautious in making advances. The volume of their loans outstanding even declined substantially between 1931 and 1936. The cautious policy of the banks was not, however, the only factor that produced this result. The high industrial profits earned in the years of rising prices and stationary or declining wages, enabled manufacturers not

merely to finance extensions to their businesses out of their own resources, but also to repay their outstanding loans to the banks.

Reflation in Japan thus has some peculiar features. The Government was able to spend heavily on armaments out of loans without bringing about competition with itself for the necessary resources, largely because the ordinary banks refrained from creating private credit to match that of the Government and of the official financial institutions. Consequently, it was able to carry through the redistribution of the country's labour and capital in order to build up a "quasi-war-economy" without provoking a steep rise in prices and without imposing vexatious administrative controls over the disposition of resources.

By 1936 recovery had been achieved, and the time had come, in Mr. Takahashi's opinion, to call a halt to the process of reflation. The Army, however, far from being prepared to accept any limitation on its war-preparation expenditure, asked for further increases. The ensuing conflict was a contributory cause of the outbreak of February 1936, when Takahashi was murdered. His successor was more amenable to military pressure, and accepted the proposition that no halt could be called in loan-financed expenditure. In the first few months of office, he carried through extensive conversion operations by which a great number of 5 per cent bonds were exchanged for 3.5 per cent bonds; while the Bank of Japan's discount rate was further lowered and the deposit rates of the ordinary and savings banks were brought down sharply. The budget for the financial year 1937-38, as originally drawn up and passed, provided for large increases in expenditure which were to be met mainly by expanding the deficit bond issues, although some new taxes were imposed.

Subsequent events showed that Takahashi was right in thinking that, on economic grounds, the time had come in 1936 to call a halt to the reflation policy; for, by the end of 1936, symptoms of financial strain began to appear. There was a sharp upward movement in wholesale prices; the rate of export expansion began to slow down; and the yen showed signs of weakness. A fall in the yen, however, would have endangered the policy of creating a "quasi-war-time economy" which was now being pursued more vigorously than ever; for a lower yen would have raised the price of imports of strategic materials which were now being acquired in large quantities. So, early in 1937, control over exchange dealings, which had previously been of little account, was tightened. Traders now had to secure official permission before they could obtain exchange in payment for imports for an amount in excess of 30,000 yen a month, and just before the Lukouchiao incident in July, the limit was reduced to 1,000 yen a month. Between March and July large exports of

gold also became necessary and these amounted during that period to 380 million yen (at the valuation of 1930). In July the outbreak of war with China brought a new era in economic policy, and from then on Japan began to adopt the devices for creating a war-time economy with which most countries of the world were later to become familiar.

The time has not arrived when a complete examination of Japan's war-time economic policy is possible, although some phases of it before the Pearl Harbour attack have been described elsewhere.¹ There was an immense increase in Government expenditure financed partly by higher taxation, but mainly by bond issues; there was a large-scale transference of resources from peace-time to war-time industries; and there was a widespread extension of controls over economic processes. A detailed description of these changes is beyond the scope of this book. One fact of outstanding importance must, however, be emphasized. The economic circumstances of Japan on entering the war of 1937 were very different from those attending the inception of the Manchurian campaign of 1931 and the subsequent rearmament. In 1931 a large section of Japan's resources were unemployed or under-employed. Consequently it was possible for her to rearm and to develop her strategic industries at home and on the Continent by drawing on those idle resources and without making it necessary for her to call a halt to the expansion of her civilian industries or to her exports. By 1937, however, her resources were virtually fully employed, and any further growth in the armament industries was inevitably at the expense of civilian production and of the normal export trade. So, from the very beginning of the war, drastic controls to effect the necessary transferences had to be imposed, and even some of the leading exporting industries (e.g. cotton) had to be contracted. Indeed, this point appears to have been reached early in 1937, when the financial and exchange controls were instituted in order to complete preparations for the war.

¹ See *The Industrialization of Japan and Manchukuo, 1930-40* (ed. Schumpeter), especially pp. 789-854; also, G. C. Allen, *Japanese Industry: Its Recent Development and Present Condition*.

Industrial Developments after the World Depression, 1932-37

IN the previous chapter it has been shown that a great expansion took place in industrial production and in the volume of manufactured exports in the years preceding the outbreak of the Sino-Japanese War in 1937. Of equal significance were the changes in the relative importance of the different industries and in the composition of the export trade. For several decades before 1929 the trend in industrial development did not alter significantly, and the export trade was becoming increasingly specialized to textiles. Although the scope of Japan's industrial activity was constantly extending, it did not then seem likely that her main industrial interests would alter profoundly for many years to come. Yet when the country began to emerge from the depression it was soon seen that a new course had been set. This is clearly brought out by contrasting the composition of Japan's industry and export trade in 1937 with that of 1929. Some indication of the nature of the change has already been given, since it has been shown that the expansion of industrial output between 1931 and 1937 occurred mainly in the capital goods industries. But a more detailed consideration of the changes is needed for a complete understanding of the industrial history of the period.

We cannot measure precisely the changes in the relative importance of the different industries between 1929 and 1937, because no occupational census was taken after 1930 and because the information provided by the Factory Statistics does not cover production or employment in workplaces with less than five operatives. Nevertheless, the statistics are sufficient to show broadly the extent of the changes, and information derived from them is given in the table on page 138.

There took place a steep *relative* decline in textiles, while the metal, engineering and chemical groups together raised their proportion of a larger total labour force from just over a quarter to nearly two-fifths. By the end of 1937 their proportion was well over two-fifths. Such figures of the volume of output as are available for these trades support these conclusions. The output of pig iron nearly doubled between 1929 and 1936, while the raw steel production rose from 2½ million tons to 5½ million tons, and the range of finished steel products turned out was widely extended. In the chemical industry there was a very substantial

growth in the output of explosives, sulphuric acid, soda ash, caustic soda, calcium carbide, dyestuffs, and paints and most other products. In the machinery and instrument trades the rise in output is difficult to measure. Both the Factory Statistics and the Bank of Japan's index of industrial employment show, however, that the number of workers engaged in these industries grew very fast, and the testimony of foreign technical observers suggests that not merely was the quantity of output greatly increased, but quality was improved and the range of the pro-

PERCENTAGES OF TOTAL FACTORY EMPLOYMENT IN
VARIOUS MANUFACTURING INDUSTRIES, 1929-37

| Year | Textiles | Metals | Machinery, Vehicles, Instruments, etc. | Chemicals | Others | Total | Total Factory Employment (in thousands) |
|------|----------|--------|---|-----------|--------|-------|---|
| 1929 | 50·4 | 6·2 | 13·8 | 6·4 | 23·2 | 100 | 1,825 |
| 1936 | 37·9 | 9·7 | 18·3 | 11·1 | 23·0 | 100 | 2,593 |
| 1937 | 35·2 | 10·6 | 20·5 | 11·0 | 22·7 | 100 | 2,937 |

duction extended. By 1937 Japan was able to produce most kinds of machinery required by her industries, such as textile machinery, many kinds of machine tools, scientific instruments and electrical apparatus, and she was by then well able to meet her own needs for complete power-station plants. A substantial export to Manchuria had also been worked up, and if she was still importing machinery in large quantities, this could be attributed mainly to the fact that she was trying to build up her equipment rapidly in preparation for war. Shipbuilding also took an upward turn after 1931 partly because of the recovery in international trade and partly because of the introduction of a "scrap and build" plan to which reference will later be made. The number of workers in the chief shipbuilding yards rose from 34,000 in December 1931 to 51,000 in January 1936, and the tonnage of merchant ships (motor and steam) launched rose from 54,000 gross tons in 1932, the lowest point reached, to 295,000 gross tons in 1936. This was far greater than any figure of launchings since 1919. The industry also benefited by the revival of naval building. By June 1937 Japan possessed a merchant marine of 4,500,000 gross tons,¹ the third largest mercantile fleet in the world. Much of this was composed of new ships.

¹ Ships of 100 gross tons and over, including registrations in the Japanese Colonies.

Progress was by no means limited to the capital goods industries. Even in the textile group which, taken as a whole, became relatively less important, there was no significant fall in total employment. The cotton industry continued to advance at a time when Japan's main competitor in international trade was still losing ground, and there was a strong tendency for that industry to move from a concentration on cheap bulk lines towards the production of higher quality goods. This led to important relative changes in the different sections of the cotton industry. The section which concerned itself with fancy goods and which was made up of medium-sized specialist weaving sheds grew much faster than that composed of the large sheds which formed part of the great spinning-weaving mills, were equipped with automatic looms and produced cheap shirtings and sheetings for export. The result was to reverse the tendency, which had been characteristic of the twenty years before 1929, towards an increasing concentration of cotton manufacture in the combined spinning-weaving concerns.

The woollen and worsted industry also greatly expanded during these years. The annual average imports of raw wool rose from 774,000 piculs in the period 1926-29 to 1,665,000 piculs in the period 1933-36; yarn output doubled; and imports both of yarns and tops dwindled to insignificance. The several branches of the weaving industry were very differently affected. Whereas the output of muslin for Japanese dress, which previously formed an overwhelmingly large proportion of the total output of fabrics, remained stationary, there was a large growth in the manufacture both of serge for foreign dress and of woollen cloth. On the basis of this rising production, a substantial export trade was built up in the thirties. Japan thus completed the process which had been taking place in the later years of the previous decade. She freed herself from dependence on foreign supplies of tops and yarns, and she built up into substantial trades the new branches of the industry which first began to develop in the early twenties.

An even more rapid advance occurred in the rayon industry which, though merely in its initial stages in 1929, became by 1937 the largest in the world. In that year Japan produced 326 million lbs. of rayon compared with 27 million lbs. in 1929. After 1934 the output of staple fibre began to grow quickly, and it reached 167 million lbs. in 1937. This manufacture was encouraged for strategic reasons, since it provided Japan with a supply of textile materials which could be used as substitutes for imported cotton and wool in the event of war. Several other branches of the textile trade, for example, hosiery, also expanded during this time. If, in spite of the absolute growth in all these industries, the importance

of the textile group as a whole declined, this was partly because of the continued depression in raw silk. The production of raw silk did not diminish greatly in quantity between 1929 and 1936, but the value of the output fell from 857 million yen in 1929 to 398 million yen in 1934 (when the depression in this trade reached its lowest point), and even in 1936 it was only 517 million yen. The labour force attached to the industry declined from 525,000 to 321,000 during this period. The relation of this depression to the fall in raw silk exports will be considered presently. Here it is sufficient to point out that the period saw a rise in the proportion of the output consumed at home (from 19 per cent to 29 per cent), and, indeed, a substantial increase in the absolute amount of raw silk sold in the home market. The silk weavers therefore did not suffer in company with the reelers, and as those weavers were at the same time developing a large trade in rayon fabrics, their industry expanded considerably.

The relative decline in textile employment cannot be wholly attributed to the depression in the raw silk trade. Another cause was the technical improvements effected during these years, for these economized labour. Technical progress was especially marked in the cotton industry, where it must be considered in some detail. In the first place, there was a considerable rise in the scale of operations of the spinners. In 1929 only 8 per cent of the spindles were in mills with more than 100,000 spindles; by 1935 this proportion had increased to 24 per cent. In 1929 half the capacity was in mills with under 50,000 spindles; in 1935 the proportion had fallen to one-third. This decline in the importance of the small *mill* was accompanied by a tendency for the small spinning *firm* also to disappear. Firms with more than 100,000 spindles increased their proportion of the total spindlage from 70 per cent in 1929 to 86 per cent in 1935. At the same time the improvements in mill equipment which had begun in 1927 were carried much farther. The period between 1927 and 1933 saw the almost complete replacement of ordinary rings by high-draft rings throughout the industry, and the change made possible the elimination of many processes between carding and spinning and so brought about economies in labour. Other improvements were also effected, such as the substitution of overhead carriers for rail conveyors, better methods of temperature- and humidity-control and the improved lay-out of the mills. The extent of these economies in labour is shown by the fact that whereas the output of yarn increased from 1,012 million lbs. in 1927 to 1,240 million lbs. in 1933, the number of operatives engaged on the ring spinning machines was unchanged and the number engaged on the preliminary and intermediate processes, from mixing to roving, fell from 45,000 to 31,000. The result over the whole period in

which economies were being effected was a rise in output per operative in the spinning mills from 5,700 lbs. in 1926 to 7,000 lbs. in 1929, and to 9,300 lbs. in 1935. The average number of spindles in operation rose from 5,800,000 in 1929 to 8,200,000 in 1935.

In the weaving branches there were changes of equal importance. The period saw the general adoption of automatic looms by the weaving section of the combined spinning-weaving mills, and this was the main cause of the rise in output per operative in that part of the cotton-weaving industry from 22,300 yards in 1926 to 36,000 yards in 1929 and 49,000 in 1935.¹ Among the specialist weavers, whose output grew very fast after the world depression, there were marked changes in scale and equipment. Between 1929 and 1936 the proportion of the looms which were in sheds with 50 looms and over grew from 38 per cent to 48 per cent. While the number of hand-looms was halved and the number of narrow power-looms fell by one-third, the number of wide power-looms increased about 2½ times. According to Professor Uyeda's estimates, the number of looms per worker in mills with 50 looms and over increased by more than 60 per cent between 1926 and 1935 and in mills with from 10 to 49 looms by 40 per cent. It can be inferred that the growth of scale and the improvements in equipment were accompanied by considerable savings in costs.

During the twenties generalizations about the Japanese cotton industry had been usually based on observation of conditions in the combined spinning-weaving mills. During the next decade, in which the cloth output of those mills increased far less rapidly than that of the specialist weavers, these conditions became less typical of the weaving industry as a whole. By 1935-36 the specialists were consuming 70 per cent of the cotton yarn used in Japanese weaving sheds; and they had by then become responsible for 58 per cent of the piece goods exports (in value). It should be explained that the use of automatic looms was confined to the combined spinning-weaving mills, which concentrated on the manufacture of a narrow range of standardized goods; for the ordinary loom was still preferred for the types of fabric which were turned out by the specialist weaving industry. To describe the Japanese cotton industry during the thirties in terms of the combined spinning-weaving mills and of automatic looms is, therefore, to give an incomplete picture. In 1936, out of 266,000 wide power-looms in the whole of the Japanese cotton-weaving industry,

¹ In the *Report of the Cotton Mission* (p. 27), the proportion of automatic looms to the total number in the sheds owned by the spinning-weaving firms was estimated to be one-fifth. This was in 1930. During the next five years the substitution of automatics for ordinary looms was completed.

only about one-third were automatic. If the output of the section that used automatics was still growing, it was from the ordinary looms used by the specialist weavers that the greater part of the increased production of piece-goods came.

In the wool-using trades, also, there was an advance in efficiency. Rings instead of mules came to be used to a greater extent for low counts in the worsted spinning section, and the growth of the weaving sections led to the establishment of many new sheds which, though not large, were well-equipped and highly specialized. In one of the chief new centres of the woollen industry (Aichi Prefecture) it was calculated that the cloth output per operative increased threefold in quantity between 1926 and 1933.¹

Depression in the raw silk industry led to the introduction of many economies. A better co-ordination of the activities of silk-raisers and reelers brought about the cheapening of cocoons and improvements in their quality. The reelers made greater use of multiple-reeling machines by which an operative can reel twenty filaments at once compared with five on the older type of machine, and this brought about a steep fall in labour costs. In silk weaving the replacement of the hand-loom by the power-loom, which had already occurred in other textiles, went forward rapidly in the early thirties, and there was a considerable growth in the number of wide power-looms for the production of both silk and rayon piece goods for export. In rayon yarn production there were far-reaching changes both in the quality of the filament and the cost of manufacture. The price of 100 lbs. of 120 denier yarn, which ranged between 253 and 130 yen in 1929, was down to between 88 and 53 yen in 1936.

In the chemical industry there were marked improvements. There was a great enlargement of the scale of plants in the ammonium sulphate trade and other chemical trades, and costs were reduced substantially. The same is true of the paper industry. Here costs were brought down partly by the rationalization of the trade, which permitted greater mill specialization, and partly by reducing waste. One example may be given. In 1928 94 lbs. of coal were used for every 100 lbs. of paper produced; this fell in 1936 to 57 lbs. Other economies were effected in the consumption of electric power.²

In the pottery industry, especially in the large factories, there was a revolution in methods after 1930. The chief producers installed mechanically-operated conveyors in the body-making and decorating departments,

¹ Nagoya College of Commerce, *The Present Status of the Woollen Industry in Japan*, p. 41.

² Information provided by the *Oriental Economist* in 1936.

and in this way production was speeded up. Coal was superseded by gas and electricity in firing, and tunnel kilns were introduced with the result that in the decade before 1936 unit-costs were halved in the large factories. Even in the workshop section of the trade efficiency was improved, chiefly through changes in organization which enabled the small producers to specialize to a greater extent than formerly.

In the iron and steel industry, also, there was an improvement in technique. The average capacity of the blast furnaces doubled between 1929 and 1936 because of the installation of a number of large modern furnaces. In steel-making the size of the typical open-hearth furnace increased, and on the eve of the Sino-Japanese war it was estimated that in the previous nine years the amount of fuel needed to produce a ton of open-hearth steel had fallen by 40 per cent. There was also a striking increase in the production of electrically-smelted steel—an indication of Japan's newly found ability to produce high-grade steel. At the same time she was enlarging her capacity for producing the different kinds of finished steel. In spite of a large growth in her consumption of finished steel, imports fell, and in 1936 her exports (in tonnage) exceeded imports. For the metallurgical trades as a whole a Japanese writer has estimated that output per man-hour rose by 25 per cent between 1930 and 1936, and this estimate seems to be reasonable.¹

Advances in engineering are much more difficult to measure. We have seen that Japan greatly enlarged the quantity, improved the quality and extended the range of her engineering output at this time, and a few additional examples may be given. Before 1929 nearly all turbines above 10,000 kilowatt capacity were imported; by 1937 most of the greatly increased demand was being satisfied from home sources. At the beginning of this period Japan had to import nearly all her boiler tubes; at the end of it she was making tubes of good quality to satisfy her needs. Foundry technique also advanced. Large steel castings of satisfactory quality could not be obtained from Japanese foundries before 1932; by 1936 engineers could obtain them from local sources of supply without difficulty. Foreign technicians in Japan who in the twenties were loud in their complaints about the deficiencies of Japanese engineering labour have testified to the marked improvements that occurred during the thirties, both among the workers in the shops and among technicians. During the twenties these foreign observers frequently commented on the over-staffing of Japanese plants, when judged from European or American standards. This over-staffing was a necessary consequence of the employers' practice of retaining workers in their employment even in

¹ I. Asahi, *The Economic Strength of Japan*, pp. 91-2.

years of depression, as well as of the low level of skill at that time. The depression of trade in 1930-32, however, was so serious as to enforce economies in labour, while the subsequent buoyancy of trade took up the slack that remained. The result was that over-staffing was not nearly so noticeable in 1936 in any sphere of Japanese industrial production as it had previously been. Improvements in organization and technical skill, moreover, greatly reduced the proportion of technicians and supervisory staff to the total numbers employed, especially in metallurgical, machinery and chemical plants.¹ Even in mining, which had been stagnating during the twenties, costs were reduced, chiefly during the years of depression when mineowners were forced to seek new methods. In coal-mining output per man-shift (underground workers only) rose from 0.7 metric tons in 1928 to 1.2 metric tons in 1931, chiefly as a result of the greater use of mechanical conveyors.²

Japanese industry thus made a notable advance in efficiency in the decade preceding the outbreak of the war with China in July 1937. This advance was associated with a rise in skill among her workers and technicians, especially in the metal and engineering trades, and with an improvement in the equipment and organization of her plants. In some industries there was a rise in the scale of operations, and in others, where the small workplace remained typical, the producers became increasingly specialized. The main improvements in manufacturing methods were effected during the years of depression, especially in 1930 and 1931; but the period of expansion after 1932 made it possible for further economies to be realized both through a rise in the scale of operations and also through the "full running" of the various plants.

The Government's financial and rearmament policies, as we have seen, had an important influence on the direction of the industrial advance and on its extent. Further, the Government at this time intervened to a much greater extent than previously in the organization of industry, and some of its measures were designed to improve industrial efficiency. But it is certain that such improvements as occurred came in the main through the responses of individual entrepreneurs to the conditions of the years of depression, and that during that period industry, in effect, made itself ready to take full advantage of the opportunities of the succeeding period. The results of Governmental intervention were important, but hardly so in the sphere of manufacturing efficiency. The industrial policy of the period, however, must be examined more closely.

¹ Cf. I. Asahi, *op. cit.*, p. 93.

² Most of the information about technical improvements has been derived from special investigations made by the *Oriental Economist* in 1936 and 1937.

During the years of intense depression, 1930 and 1931, the Government was drawn into a policy of intervention either with the object of implementing the deflationary policy of the time or to prevent the collapse of particular trades. Its most ambitious project was the establishment of the Industrial Rationalization Bureau, as part of the Ministry of Commerce and Industry. The practical function of this Bureau was to devise and to introduce means for the co-ordination of policy within the various trades and for the increase of efficiency. Committees were set up to promote standardization and simplification and to encourage co-operative selling among manufacturers. One of the Bureau's duties was to supervise the administration of the Major Industries Control Law, passed at this time with the object of creating for every large-scale industry a cartel for the control of production, sales and price policies. The Government was given power under this law, and under subsequent amendments to it, both to compel non-members of the cartels to abide by the cartel regulations and also to prevent any abuse of monopolistic power. It is doubtful if this law had any important effect on the structure of Japanese industry. Although many cartels were formed at this time, it was the depression rather than the law which was responsible for their appearance. The Government used its coercive powers very cautiously, in part, no doubt, because it was not prepared to antagonize the business groups concerned, but mainly because the purpose of the law was ambiguous. It was not by any means clear whether the main object of the legislation was the reduction of manufacturing costs, or whether it was the improvement of the market position of the producers through the creation of monopolistic organizations among them. It is significant, however, that the use that was made of these powers by the Governments of the thirties changed with the political forces in control. A report of the Industrial Rationalization Bureau in October 1935 stated: "Along with improvements in market conditions in 1933 and 1934 the administration of the law was altered so that from being chiefly concerned with strengthening the control exercised by cartels, the executive authority directed its attention to the protection of the public interest."¹ The meaning of this statement is not difficult to understand. In 1930-31 the Government was in the hands of business groups and was chiefly concerned with rescuing industry from the effects of the depression. By 1935 not merely had the depression lifted, but political power had shifted largely to the military and naval groups which were desirous of subjecting private enterprise to regulation in such a way as to promote the strategic interests of the State.

¹ Bureau of Industrial Rationalization, *The Principle and Administrative Policy of the Major Industries Control Law*, October 1935.

Thus measures that had been conceived for the purpose of rationalizing industry came to be used, first, to support cartels, and later to impose national control over the policy of industrialists. It seems, however, that as neither of the main contending political groups had during this period established complete supremacy over the other, the application of the law was at no time very vigorous. The change of emphasis which has been noted was, however, common to other fields of economic policy. For instance, the laws governing the Manufacturers' Guilds (*Kogyo Kumiai*) and the Export Guilds (*Yushutsu Kumiai*) were revised in 1931 with the object of encouraging co-operation among small manufacturers and traders so as to reduce their costs. With the subsequent political and economic changes, the functions and status of the guilds were also changed. The *Kogyo Kumiai* came to be regarded as organs for freeing small producers from the control of the great merchants and financiers and for supporting those social groups which made common cause with the military in their antagonism to the *zaibatsu*. The Export Guilds after 1933 became less concerned with the promotion of greater efficiency in the export field than with controlling and diverting foreign trade so as to meet restrictions imposed by foreign nations on Japanese exports.

The policy towards rural communities throws further light on the political trends of the period. Financial encouragement was given to the peasants' co-operative societies. Co-operative storehouses, fertiliser factories and filatures were set up with Government help, and the co-operatives displaced merchants from several lines of rural trade. Attempts were also made to divert industry to remote rural prefectures, and munitions contracts were distributed with this end in view. When the depression first struck the raw silk industry the Government at first followed the practice of earlier years and provided funds for valorization. As the depression became intensified, it passed laws designed to increase efficiency. Then, in 1935, it introduced a redundancy scheme for removing excessive capacity both from the silk-raising and the reeling branches, and it controlled by licence the establishment of filatures and silk merchanting businesses. Help was also given towards the setting up of co-operative reeling mills by the silk-raisers so that they might escape from the financial control of the large reelers.

The policy of extending national control over industry partly for strategic reasons and partly for the promotion of the interests of particular social groups came to a head in the controversy over the electricity-generating industry. The nationalization of this industry, which the military and certain sections of the bureaucracy advocated, was desired partly because it would make possible the sale of electricity at cheaper

rates to small users at the expense of the large users. But the business interests were sufficiently powerful to defeat this attempt until after the outbreak of war in 1937. They could not, however, defeat similar attempts in other trades. For instance, in 1934 legislation provided for the establishment of the Japan Iron Manufacturing Company by the amalgamation of six large private concerns with the State's Yawata works. The result was to place nearly all the pig iron capacity and more than half the steel capacity in the hands of a company whose capital was held mainly by the State. Again, firms (including foreign firms) engaged in the distribution of oil were obliged to store oil equivalent to their sales in a six months' period, and the production, refining and distribution of oil were brought under close Government control. Duties on imported oil were raised so as to provide funds for the subsidizing of home production and for the development of hydrogenation. The shipping and shipbuilding industries were also the object of intervention. During the depression years the Government adopted a "scrap and build" plan to support these industries, and as a result the merchant marine became equipped with a high proportion of new fast ships. In 1936 the Government assumed large powers of supervision over the activities of shipping companies.

There were other examples of this trend towards Government control within Japan itself; but the policy received its most unambiguous expression on the continent, especially in Manchukuo. There the influence of the Army was paramount; and the kinds of industries that were fostered after 1932, no less than the methods employed to foster them, indicate that the policy which in Japan itself was only gradually and tentatively adopted was there unchallenged. The industries that were introduced into Manchukuo, or were extended after the establishment of that State, were chiefly branches of the metallurgical and chemical industries—the war industries—and all forms of industrial investment in that country were strictly controlled and were supplied up to 1937 by or through the South Manchuria Railway Company or companies in which the Manchukuo and Japanese Governments held a large part of the capital. The most striking developments occurred after the outbreak of war against China and are, therefore, not within the scope of this book. But the foundations of the great expansion that later occurred were laid in the years from 1931 to 1937. During that period the output of iron ore and pig iron in Manchukuo more than doubled (the latter reached 762,000 metric tons in 1937); and steel production, which hardly existed before 1935, reached 430,000 tons two years later. There were considerable advances, too, in coal production (which amounted to 12,500,000 metric tons in 1937), and in the output of cement, chemicals, gold and many other minerals

and manufactured goods. Japanese investment in Manchuria rose very fast. At the time of the Manchurian campaign in 1931 total Japanese investment in that country stood at 1,600 million yen; by the end of 1937 it was well over 3,000 million yen. The resources of Korea were also extensively developed after 1931, especially her mining industry and the industries that depend on minerals.

This expansion of Japanese enterprise on the continent, together with the political changes in Japan, had important effects on the position of the *zaibatsu*. It has been shown that the depression discredited the Minseito Government, and also the great business groups associated with it. Opposition was especially strong from the military, who disliked the policy of that Government in the fields of foreign relations and of armaments, and from the peasantry and small producers who had suffered most bitterly from the economic collapse. Violent attacks were made on the *zaibatsu* on the ground that, in promoting their own financial prosperity, they had jeopardized the interests of the State and had done great hurt to the peasants and the small producers and traders. These attacks came to a head in May 1932 in the assassination of Baron Dan, the chief executive of Mitsui, at the hands of a "young officer" group. The *zaibatsu* retreated. They tried to disarm popular resentment by relegating to obscurity officials who had been responsible for their previous business policy. Mitsui, which was the main target of criticism, withdrew from trade in minor agricultural products and sold to the public large holdings of shares in some of its leading companies. It made a donation of 3 million yen for the relief of distress, and it established in 1933 a fund of 30 million yen for the promotion of social services. After the mutiny of February 1936 (the "February Incident"), which was in part the outcome of "anti-capitalist" feeling, the members of the Mitsui family announced their intention of withdrawing from directorates and from active participation in the business. The *zaibatsu* attempted to show their devotion to the national interests by establishing, or investing in, new enterprises of strategic importance, such as synthetic oil production; and they provided most of the capital for a new bank intended to finance those small traders and industrialists who were members of Manufacturers' or Export Guilds.

Their opponents, however, found it hard to believe that the *zaibatsu* were "sincere" in their new policy, which was referred to as a "camouflage policy." The critics may well have been right. Powerful groups in the Army were advocating at this time the creation of a "quasi-war-time economy" (*Junsenji Keizai*). By this they meant the destruction of the liberal and capitalistic influences in society and the direction of the

country's resources along lines determined by strategic needs. This process proceeded slowly between 1932 and the "February Incident" of 1936, since it encountered opposition from the older bureaucrats and statesmen as well as from the threatened business groups. After 1936 the pace was quickened; but it cannot be believed that the *zaibatsu*, though they could no longer resist openly, were enthusiastic supporters of the policy.

It is true that the creation of a *Junsenji Keizai* brought certain compensating advantages to the *zaibatsu*, since if it damaged their political, commercial and financial interests, it stimulated the development of the heavy industries in which they had many important enterprises. But the compensation was hardly adequate; for much of the new industrial development, especially in Manchukuo, was in the hands of business groups other than the *zaibatsu*. The military could not dispense with the help of big business in the development of the strategic industries and the resources of Manchukuo; but since they were hostile to the *zaibatsu*, they had to look elsewhere for the capital and business experience that were needed. Among the new business groups that grew in strength in consequence of this policy, the most important was the Nippon Sangyo Kaisha (Nissan), controlled by Y. Aikawa. This concern commended itself for two reasons. Its capital structure was very different from that of the *zaibatsu* undertakings; for its shares were fairly widely distributed, instead of being concentrated in a few families. In the second place, Nissan's fortunes were wholly bound up with the promotion of a *Junsenji Keizai*, and it was likely to be amenable to militarist influences. When the development of Manchukuo was accelerated after the outbreak of the Sino-Japanese war in 1937, the industrial undertakings which had hitherto been conducted by the South Manchuria Railway Company were transferred to a new concern, the Manchukuo Heavy Industries Development Company, in which Nissan held half the capital and the Manchukuo Government the rest. Nissan also obtained financial support from the special banks. Whether Nissan was as independent of the *zaibatsu* in reality as in appearance may be doubted; but at all events the importance that the *shinko-zaibatsu*¹ assumed after 1936 is hardly likely to survive the collapse of Japanese imperialism with which their rise was associated.

The changes in the volume, composition and destination of Japanese exports in the period from the world depression until the outbreak of war with China reflect faithfully the financial and industrial developments

¹ *Shinko-zaibatsu* (or New *zaibatsu*) is a term commonly used to describe these new capital groups.

that have been described. The total value of Japan's exports to foreign countries fell from 2,149 million yen in 1929 to 1,147 in 1933; but recovery was rapid after the fall of the yen, and in 1936 it reached 2,693 million yen. The course of the import trade was similar; 2,216 million yen in 1929, 1,236 million yen in 1931 and 2,764 million in 1936. In the first six months of 1937 there was a sharp upturn in the foreign trade, particularly in imports; for Japan was then buying heavily from abroad in preparation for the coming war.

In volume exports were probably about one-fifth greater in 1936 than in 1929, and this increase, it must be remembered, took place at a time when international trade as a whole was stagnating. The structure of the export trade altered profoundly. There was no significant change in exports of raw materials and foodstuffs, which were comparatively small in both years. The proportion of finished manufactures in the total, however, rose from 44 per cent in 1929 to 59 per cent in 1936; while there was a steep decline in exports of semi-manufactured articles—from 43 per cent to 27 per cent. The cause of the declining importance of the last class of goods is, of course, to be found in the persistent depression in the raw silk trade; in 1929 raw silk accounted for 37 per cent of the exports, in 1936 for only 15 per cent. In the cotton trade, although there was a great expansion in the quantity of piece-goods—from 1,791 million square yards in 1929 to 2,710 million square yards in 1936—yarn and piece-goods together barely maintained their importance in the export trade as a whole. It was about one-fifth of the total in each of these years. Exports of other textiles expanded considerably, notably rayon yarn and piece-goods, woollen and worsted piece-goods and knitted goods, and the proportion of textiles other than cotton and raw silk in the total trade rose from 13 per cent to 18 per cent. Even so, textiles as a whole formed a less important part of Japan's exports in 1936 than in 1929; the proportion having fallen from 69·4 per cent to 52·6 per cent. It was mainly to the rise in exports of metals, metal manufactures, machinery and instruments that this can be attributed. The share of these products in the total exports rose from 4 per cent in 1929 to over 14 per cent in 1936. There had also been a remarkable increase in the exports of numerous miscellaneous industries—toys, lamps, pottery, glass, and many others. Many of these goods were the products of small-scale trades which had expanded after the fall of the yen; and the result was that by the end of the period Japan's export trade was far more diversified than it had been in 1929.

The destination of the exports had also altered. The United States, which had taken 43 per cent of the exports in 1929, took only 22 per cent in 1936; this was because of the fall in raw silk exports to that market.

China, including Kwantung, Manchuria and Hong Kong, took 25 per cent in 1929 and 27 per cent in 1936; for the steep rise in exports to Manchuria, in consequence of the heavy investments in that country, more than offset the fall in exports to China Proper. Exports to other Asiatic markets—British India, the Dutch East and Straits Settlements—also rose considerably, and so did exports to Africa, South America, Europe and Australasia. As a broad generalization, it may be said that in 1936 Japan's export trade consisted of raw silk, together with certain other products like canned fish, tea and pottery, supplied to the United States; machinery and other capital goods supplied to Manchukuo and North China; and textiles and cheap miscellaneous consumption goods supplied to many countries, particularly to continental Asia and the South Seas.

The lessened specialization both in markets and commodities which occurred over this period would suggest that Japan's trade had become less vulnerable than formerly to changes in demand; but this conclusion cannot be accepted without important qualifications. The rise in exports of metals and machinery, which did much to affect the trade, was in some degree the result of Japan's strategic plans and of the measures necessary to carry them out. Some part of the diversification, moreover, can be attributed to Japan's being compelled to find alternative markets and export goods in consequence of restrictions placed on traditional exports to her former chief markets or because of the steep fall in the value of her raw silk trade.

The outcry that greeted the expansion of Japan's exports during the thirties seems, at first sight, difficult to understand, since she accounted for only 3.65 per cent of world exports in 1935 and for 3.59 per cent in 1936. It is true that there had been an increase after 1929, when the proportion was 2.94 per cent; but Japan's share in world exports was still small and, further, her imports had risen correspondingly. The explanation is not far to seek. In 1929 a large proportion of Japan's exports was not competitive with those of other leading industrial countries. During the thirties, however, she replaced raw silk by finished manufactured goods in her export trade, and while some of these finished manufactured goods, because of their low prices, went to meet demands hitherto unsatisfied, others (especially cotton piece-goods) displaced the exports of foreign industries which were for other reasons already depressed. For example, the British cotton industry in the inter-war years declined continuously chiefly because former customer-countries, especially India, became able to supply the bulk of their own needs. In these circumstances of dwindling international trade the growth in the export of

Japanese cotton piece-goods was a particularly severe blow at the British industry.

Changes in the import trade reflected the same tendencies. There was a steep rise in imports of raw materials (especially textile raw materials) and of semi-manufactured materials (such as pig iron and scrap, non-ferrous metals and pulp), whereas there was a fall in the importance of finished manufactured goods, with the exception of certain kinds of machinery and automobiles and parts. This was symptomatic of Japan's increasing industrialization. There was also a change in the sources of imports. Australia became a larger supplier, because of Japan's increasing demand for wool. The United States became more important, since Japan increased her purchases of American machinery, automobiles and raw cotton. The necessity for balancing her trade with particular countries because of import restrictions on her goods led to a growth in imports from Africa and South America.

Finally, the Japanese colonies grew in importance both as markets and as sources of imports. For this the autarkical tendencies in world trade as a whole, as well as Japan's own policy of colonial development, were largely responsible. Whereas in 1929 the colonies supplied Japan Proper with 20 per cent of her total imports and took about 18 per cent of her total exports, in 1936 the corresponding figures were 24 per cent and 25 per cent. It was not until after the outbreak of the war with China, however, that there occurred that fundamental change in the direction of Japanese trade that was associated with the development of the "yen bloc."

On balance, it can be said that Japan had adjusted her foreign trade very successfully to the catastrophic world changes of the early and middle thirties. She had found new customers and alternative commodities as compensation for the decline that occurred in some of her chief markets and major lines of trade. Her industrial expansion had made her a leading market for some of the chief raw material producing areas, notably the cotton-belt of the United States and the wool-growing areas of Australasia. She had become increasingly self-sufficient in finished manufactured products, even for machinery and other capital goods for which her demand had grown very rapidly both for her own use and for the development of Manchuria. Yet she had not escaped the effects of the trade restrictions of the time. As we have seen, her trade had been diverted by these measures. She was obliged to accept limits to the expansion of her exports to certain markets, and this led her to conclude a number of bilateral agreements which were intended to balance her trade with particular countries. These developments certainly accounted in part for

the worsening of her terms of trade during the middle thirties; while their political influence was extremely unfortunate. Japan, with her rapidly growing population and her increasing dependence on foreign trade for the maintenance and improvement of her standard of life, was in a position similar to that of Great Britain in the middle of the nineteenth century. Her economy possessed the same resilience and flexibility. Her economic interest required a world in which there were liberal trading arrangements so that she might be able to exchange on good terms her manufactured goods for the raw materials she needed in increasing quantities. But these conditions were disappearing from international trade. Her main competitors had rigid economies which could not adapt themselves to her competition. The world trend was towards restrictionism—towards the parcelling out of markets among the established suppliers. Thus conditions were unfavourable for the success of an expansionist economic policy which her own interest so urgently required. The political groups who sought not economic welfare but territorial expansion, and who wished to establish Japan's ascendancy in Eastern Asia so that she might enjoy monopolistic advantages, were consequently strengthened. Apologists for Japan's aggression in China were at one time inclined to argue that her policy was wholly, or mainly, attributable to her economic needs and to the barriers that were being erected to her commercial expansion. This is greatly to overstate the case. The root of Japanese imperialism is certainly not to be found in economic causes. But the circumstances just described no doubt contributed in some measure to the success of the extremists in gaining support for their policies.

Chapter XI

Summary and Conclusions

IN 1867, when this story of economic development begins, Japan's economy was given over predominantly to small-scale agriculture and to household industry. She then lacked modern communications and modern educational, administrative and financial systems. Factories driven by mechanical power and industrial equipment of the kind with which the leading Western countries had been familiar for the best part of a century were novelties. She had only slight experience of foreign trade and of the operation of an ocean-going mercantile marine. It is true that at that time even in parts of the Western world modern industrialism and modern transport systems were comparatively recent innovations, and that the influence of the great technical discoveries of the eighteenth and early nineteenth centuries had still not completely shattered the old economic forms. Yet the contrast between Japan and the West lay not so much in the fact that Japan was a late starter in the development of the new economy, but rather that the conditions precedent to such a development did not seem to be present in her society. There had been no expansion of overseas commerce such as preceded the industrial age in Great Britain. The minds of her people had not been subjected, as in Europe, to the philosophic influences which had weakened the forces of custom and tradition, had made them receptive to the discoveries of science, and had brought about the great liberation of individual human energies that had occurred at the end of the eighteenth century. There had been no accumulation of scientific knowledge and no widespread appreciation of the scientific method as applied to the processes of production. Japanese society in the later years of the Tokugawa era, had certainly not been stagnant and, as we have seen in the first chapter, the older forms of social and political organization were then disintegrating. The changes were, however, very different from those that brought to an end the *ancien régime* in Europe and led to the emergence of liberalism in both the economic and political spheres. Thus in 1867 the Japanese economy was not merely backward when compared with that of the chief Western nations, but the foundations for a new era of expansion seemed to be ill prepared.

In the space of some sixty years Japan had been transformed into a modern industrial State, equipped with all the resources of applied science

and technology, and capable of producing efficiently most types of manufactured products. She had established adequate systems of finance and communications. Her mercantile marine was the third greatest in the world. Her overseas' trade was large and was still growing rapidly; in its composition it was in most respects typical of that of a modern industrial State. In the nineteen-thirties Japan was conducting with success large-scale undertakings beyond her shores, and she was becoming an important investor in overseas' enterprise. She possessed an efficient bureaucracy and a skilful and experienced class of entrepreneurs, technicians and managers. Her workers rivalled in skill those of far older industrial countries. Since the beginning of the Meiji era her population had doubled itself and the standard of life of her people had risen. Political changes had accompanied this economic expansion. Japan had made herself into a great military and naval Power, and since 1894 she had pursued with success a policy of imperialist expansion on the continent of Asia.

These achievements did not depend on great natural resources. Although she possessed ample supplies of water power and fair supplies of coal and copper, she was not well endowed with the raw materials of industry, and like Great Britain she had to import most of them from overseas. Yet she had become eminent as a producer not merely of the older textiles, to which new countries usually turn in the early stages of their industrialization, but also of more recent products like rayon and, in the last decade, of the typical products of the most advanced industrial nations, metal and engineering goods and chemicals. Nor, in the inter-war years, could she be regarded as a sedulous imitator of the West. Her economy and her civilization could no longer be described as a "*traduction mal faite*." She herself was making contributions to science and to technology, and she had evolved forms of social and economic organization which were peculiar to her.

To record the course of this development is one thing; to explain how it came out as it did is another and more hazardous task. No explanation that would be accepted by all enquirers into the Japanese problem can be found, and dogmatism would be out of place. Moreover, he who would bring to light the springs of action cannot confine himself to economics. Why certain individuals or groups were brought to act at certain moments as they did; why their actions had such far-reaching effects on national life; and how the succession or accumulation of small events gave rise to significant trends; these things cannot be fully disclosed by research into the facts of economic development alone. Yet among the many factors that contributed to the rise of Japan, there are

some that would probably be accepted by all investigators as significant. At these we may now glance.

At the time of the Restoration, in spite of internal dissensions, the people of Japan possessed an underlying sense of national unity which was the product of her geographical position, of linguistic uniformity and of her long history. There was a way of life and a scale of values which were widely accepted by the people and were brought into high relief when the Japanese came to confront the Western nations whose cultural background was entirely different. Secondly, Japan, in spite of the autonomy enjoyed by the feudal magnates in Tokugawa times, yet possessed a central administration which had managed to impose its will upon the country with a fair measure of success for more than two centuries. There also lingered memories of a still more highly centralized form of government. She had in the Emperor an institution that could be used as a focus for the sentiment of absolute loyalty to a superior, which was the most honoured virtue of the race. This institution had its roots deep in the past, and round it clustered the myths and traditions of the people. When the need came, the Emperor could be transformed into a ruler with divine attributes, who claimed not merely respect and obedience, but also fanatical devotion. Yet if Japanese society was moved by these ancient traditions, in the middle of the nineteenth century it was in a condition which made it receptive of stimulus from the West. Moreover, if it was constituted so as to be capable of providing the country with a ruling class that possessed prestige and self-confidence, that class was not rigidly demarcated from the rest of the population, nor was it conservative in its outlook. Men of talent found opportunities to enter it, and many of its members were themselves avid for change in the ordering of their country's affairs. The mass of the people were docile in the presence of acknowledged authority, and in every class there was a capacity for co-operation and organized effort which was in part the product of a long experience of group action in the family, the clan, and the guild. This society, while it often threw up men of strong personality and will, yet usually contrived to ensure that their activities were subordinated to the interests of the group or the nation as a whole.

At the same time, Japan's technical inheritance was not negligible. The peasants possessed traditional skill in agriculture and in many crafts associated with it. There was a nucleus of skill in the manufacture of textiles and metal wares, a skill derived from the practice of the *meibutsu* trades which had for centuries served the ruling class. Further, there were a few families with a long experience of business organization on a considerable scale. Japan provides a good example of how quickly massive

new industries may be built up on the basis of a nucleus of organizing capacity and craftsmanship and of a mass of docile, unskilled workers.

In the period of transition from the old to the new economy, Japan was favoured by fortune. It happened, as we have seen, that in the very early days of New Japan a large foreign demand arose for the very commodity which she was very well fitted to supply, raw silk. And in the middle period (indeed, right down to 1929), the great expansion of the American market enabled her to build up a substantial foreign trade, chiefly on the basis of this product. Thus before her new manufacturing industries had attained a degree of efficiency that would enable them to export on a large scale, she was able to draw on foreign supplies of equipment and materials in exchange for this product of a peasant industry. This was certainly an important factor in accelerating her development as an industrial nation. Added to this was the fact that her agriculture and fisheries were able to raise the production of food for the growing population to a sufficient level to render her almost independent of food imports except from her colonies.

The forms assumed by Japan's economy and the direction of her development can be explained partly by the condition of her economic system at the time of the Restoration, and partly by the political objectives which she set herself. Japan's first problem was to take over as quickly as possible the technical apparatus of the West. Because of her own backwardness, and since entrepreneurial initiative was not widely diffused, she could not hope to achieve this purpose merely by throwing open the country to Western economic influence. The *laissez-faire* prescription was not for her. Moreover, she feared for her security, and her leaders could not neglect the strategic aspect of economic development. Hence the active part played by the State in the early and middle years of Meiji in the founding of new industries; hence the continued concern of the Government and of the business families through which it worked with enterprises that touched on national power. The vitalizing influence of freedom in economic life could be admitted in a large measure; but there were certain overriding considerations which it was thought well to keep in mind.

If much was changed, there still remained in Japan many vestiges of the ancient order. This was demonstrated in the organization and conduct even of the large-scale businesses. It was seen in the mutual relations of the Government and entrepreneurs, of workers and employers, landlords and tenants. In the Japanese version of "welfare capitalism," as practised by the great concerns, there was reproduced in a different medium the pattern of relationships found in the old workshops, where the *detchi*

(apprentices) lived with their master and were subjected in both working and leisure time to his discipline. Again, the relations of the *zaibatsu* with the State are in some ways akin to those that formerly existed between the *daimyo* and Shogun on the one hand and the rich *chonin* who financed them on the other. In a sense, both the modern *zaibatsu* and the old *chonin* were merely agents of national or feudal policy, but from time to time they could influence profoundly, or perhaps determine, what that policy should be. Even the older social conflicts have been reflected on the unquiet sea of modern economic life. With the contempt and envy felt by the *samurai* when confronted by the growing wealth of the *chonin*, we may compare the bitterness and at times the ungovernable fury aroused in recent years among the military by the steady growth of *zaibatsu* wealth and influence. The internal organization itself of these great business houses is infused with a spirit peculiar to Japan; for it shows marked traces of both the Japanese family system, with its widely ramifying claims and loyalties, and also the emotional dispositions associated with the lords and their retainers under the old régime.

The policy of the Japanese Government in the Meiji era and subsequently was directed primarily towards raising the power of the State and towards inducing the economic expansion necessary to sustain that power. There was no desire to assimilate Western civilization in the sense of substituting a Western scale of values for its own. Dr. Hu Shih has pointed a contrast between Japanese and Chinese experience in this respect.¹ In China, he says, there has occurred a "gradual penetration and assimilation of ideas and practices"; and in the absence of centralized control, fundamental cultural changes have taken place through a process of free contact and slow diffusion. The result is that the foundations of Chinese society have been affected before the superstructure has been much altered. In Japan, on the other hand, rapid changes in the technical equipment and the economic organization of society were achieved as the result of the deliberate policy of the ruling class, and these changes were imposed on a people whose values remained those of their native civilization. Indeed, care was taken to protect their cultural heritage from the corrosive influences of the West, and in this process the ancient system of values was given a clearer definition than it formerly possessed, and the claims of the Japanese way of life were more vigorously asserted. Japanese society, however, could not escape completely from the political and cultural concomitants of Western industrialism and applied science; but where liberalism and rational humanitarianism appeared they were

¹ In an address on "The Modernization of China and Japan" to the American Historical Association at Washington on December 29, 1939.

often greeted with bitter opposition, and at no time penetrated deeply into many Japanese minds. During the twenties, it is true, it seemed reasonable to expect that the material transformation would sooner or later lead to fundamental changes in social and political ideas, and that, in politics, Japan might gradually proceed by way of a senatorial parliamentary system to democracy and representative government. But the times were unfavourable. At a critical point in her history she was overwhelmed by the "great depression," and she was caught up in the fascist trend of the thirties. Knowing little of the inner meaning of Western civilization, she applied a purely pragmatic test in her judgment of its outward manifestations, its forms of government, social organization and economic systems. The successful alone was impressive. Hence her great material achievements came to be wrecked on the rocks of national ambition.

In the thirties she directed all her newly-found technical skill to the creation of what she herself called a *Junsenji-Keizai* (a quasi-war-time economy). Discarding the policy of "sound finance," which had proved so disastrous for all countries which had continued to practise it, she rescued herself from depression. But her new policy, even if it satisfied in its technical aspects the canons of what is now called a "full employment" policy, became increasingly associated, as in Germany, with large-scale rearmament and military aggression. Economic affairs passed under the control of the militarists, and were moulded by the needs of war preparation. In a sense the very forces which had supplied the impulse to economic expansion during the Meiji era, and the very conditions which made the development of Japan so great and so rapid, have been responsible for the catastrophe in which she has now become involved. It is not from the decay of vigour, nor from administrative inefficiency and corruption, nor from internal social conflict, that disaster has proceeded. It is rather from patriotism corrupted into immoderate ambition, from a strong national spirit degenerating into fanaticism unrestrained at the last either by morality or the calculations of expediency, and from confidence in material success turned to excessive pride in achievement.

Japan might well have been expected to render great services to mankind. She was the first and only Asiatic nation to show a great practical capacity in spheres in which Western nations had led the way. By her geographical and her cultural affinities, she was well-fitted to introduce applied science and industrialism to the peoples of Asia and to supply the organizing ability and the advanced technique which those peoples needed so that the burden of their grinding poverty might be lifted. She had already made available to them new kinds of consumption goods at

prices which they could afford, and she might have played a leading part in raising further their standard of life. She possessed a resilient economy lacking the rigidities that had appeared in the Western world. An immense field of industrial expansion lay before her; but she turned aside from it to pursue other ends.

APPENDIX A

Glossary

| <i>Japanese Term</i> | <i>English Equivalent</i> |
|-----------------------|---|
| Bakufu | The feudal government as carried on by the Shogunate |
| Chonin | The merchants |
| Chosen | Korea |
| Daimyo | Feudal lord before the Restoration |
| Detchi | Apprentice |
| Dogyo Kumiai | Trade association or guild |
| Genro | Elder Statesman |
| Geta | Wooden footwear |
| Goyokin | Money for government use; may be compared with the Tudor benevolences |
| Habutae | A silk fabric |
| Han | A fief or clan ruled by a <i>daimyo</i> |
| Hibachi | A brazier of pottery, wood or metal, used for warming Japanese houses |
| Joka-machi | Castle towns |
| Junsenji Keisai | Quasi-war-time economy |
| Kabu | Share, or membership privilege, as applied to the former guild system |
| Karafuto | Japanese Saghalien |
| Kawase-gumi | Exchange company |
| Kogyo Kumiai | Manufacturers' association or guild |
| O-bon | Festival of the Dead, held annually in mid-July. The ancestral spirits are supposed to visit the living members of their families |
| Meibutsu | Speciality products |
| Rangaku | Dutch learning |
| Sake | Alcoholic drink distilled from rice |

| | | |
|-------------------|-------|--|
| Samurai | | A member of the military class in feudal Japan |
| Sangyo Kumiai | .. | Co-operative society |
| Sankin Kotai | .. | Alternate attendance, referring to the obligation imposed on <i>daimyo</i> of residing for part of each year in Yedo |
| Shogun | | Military governor of the State during period when the Emperor held aloof from the administration |
| Shokunin | | Journeyman |
| Taiwan | | Formosa |
| Tonya, or Toiya | .. | Wholesale dealer or commission merchant |
| Yedo | | The name for Tokyo before the Meiji era |
| Yushutsu Kumiai | .. | Export guild |
| Zaibatsu | | Money groups or plutocracy |
| <hr/> | | |
| Tokugawa Era | .. | 1603-1868; the House of Tokugawa ruled Japan during this period as <i>Shogun</i> |
| Meiji Restoration | .. | The Restoration in 1868 of the Emperor to his former position as <i>de facto</i> head of the State |
| Meiji Era | | Reign of the Emperor Meiji, 1868-1912 |
| Taisho Era | | Reign of the Emperor Taisho, 1912-26 |
| Showa Era | | The present reign, 1926 to date |

WEIGHTS AND MEASURES

Cho = 10 tan = 2.45 acres

Koku = 4.96 bushels

Kwan = 8.27 lb.

Picul = 100 kin = 132.3 lb.

Yen = 100 sen = 2s. 058d. at par; stabilized at 1s. 2d. from 1934 to 1939

APPENDIX B

Statistical Tables¹

TABLE I

POPULATION, 1873-1940

(in thousands)

| Year | | | | | | Population |
|------|----|----|----|----|----|------------|
| 1873 | .. | .. | .. | .. | .. | 35,000 |
| 1903 | .. | .. | .. | .. | .. | 45,500 |
| 1920 | .. | .. | .. | .. | .. | 56,000 |
| 1925 | .. | .. | .. | .. | .. | 59,700 |
| 1930 | .. | .. | .. | .. | .. | 64,500 |
| 1935 | .. | .. | .. | .. | .. | 69,300 |
| 1940 | .. | .. | .. | .. | .. | 73,100 |

Source: *Statistical Year-Book of the Empire of Japan*. The figures for 1873 and 1903 are estimates based on local records of family registrations and corrected in the light of subsequent Census returns. The figures for 1920 and later years are based on the Census returns.

TABLE II

DISTRIBUTION OF POPULATION ACCORDING TO SIZE OF TOWNSHIPS

(as percentages of total population)

| Size of Unit | 1893 | 1903 | 1913 | 1920 | 1930 | 1935 |
|-------------------------|------|------|------|------|------|------|
| Under 10,000 persons .. | 84 | 79 | 72 | 68 | 59 | 54 |
| 10,000-49,999 .. | 10 | 10 | 14 | 16 | 16 | 15 |
| 50,000-99,999 .. | — | 2 | 3 | 4 | 7 | 6 |
| 100,000 and over .. | 6 | 9 | 11 | 12 | 18 | 25 |
| | 100 | 100 | 100 | 100 | 100 | 100 |

Source: *Statistical Year-Book of the Empire of Japan*.

¹ These tables refer to Japan Proper only, except when otherwise stated. Japan Proper consists of the four main islands of Honshu, Kyushu, Shikoku and Hokkaido, together with the Kuriles, the Luchus and other small outlying islands. A few of the tables, notably those showing the foreign trade, also cover Karafuto (Southern Saghalien).

TABLE III
OCCUPATIONAL DISTRIBUTION OF POPULATION
(in thousands)

| Industry | 1920 | 1930 | 1936 (estimated) |
|------------------------------------|--------|--------|------------------|
| Agriculture and Forestry | 14,128 | 14,140 | 14,140 |
| Fishing | 558 | 547 | 602 |
| Mining | 425 | 251 | 299 |
| Manufacturing | 5,300 | 5,700 | 7,637 |
| Commerce | 3,188 | 4,478 | 4,748 |
| Transport and Communications .. | 1,037 | 1,108 | 1,108 |
| Public Services and Professions .. | 1,442 | 2,044 | 2,061 |
| Domestic Servants | 655 | 781 | 837 |
| Others | 528 | 571 | 626 |
| Total | 27,261 | 29,620 | 32,058 |

Sources: *Statistical Year-Book of the Empire of Japan*; Bureau of Statistics, Imperial Japanese Cabinet, *Population of Japan*, 1920, 1925, 1930. The estimates for 1936 are based on those made by the *Oriental Economist* in a supplement entitled *Japan in 1938*, p. 19.

TABLE IV
DISTRIBUTION OF OCCUPIED POPULATION IN MANUFACTURING INDUSTRIES
(in thousands)

| Industry | 1920 | | | 1930 | | |
|--|-------|---------|-------|-------|---------|-------|
| | Males | Females | Total | Males | Females | Total |
| Textiles | 430 | 951 | 1,381 | 521 | 924 | 1,455 |
| Metals | 435 | 17 | 452 | 364 | 17 | 381 |
| Machinery and Tools .. | 178 | 17 | 195 | 221 | 11 | 232 |
| Ships and Vehicles .. | 136 | 3 | 139 | 186 | 3 | 189 |
| Instruments | 46 | 3 | 49 | 52 | 3 | 55 |
| Chemicals | 104 | 30 | 134 | 129 | 32 | 161 |
| Ceramics | 147 | 30 | 176 | 143 | 27 | 170 |
| Clothing | 271 | 175 | 447 | 297 | 170 | 468 |
| Paper and Printing .. | 171 | 47 | 218 | 235 | 36 | 271 |
| Wood-working | 526 | 126 | 652 | 572 | 68 | 640 |
| Leather, Bone, etc. .. | 36 | 7 | 43 | 28 | 4 | 32 |
| Food and Drink | 370 | 132 | 502 | 389 | 100 | 488 |
| Gas, Water, Electricity .. | 90 | 3 | 92 | 125 | 4 | 128 |
| Building and Civil Engineering | 720 | 7 | 727 | 935 | 7 | 942 |
| Others | 71 | 20 | 91 | 77 | 17 | 94 |
| Total | 3,729 | 1,568 | 5,297 | 4,273 | 1,434 | 5,707 |

Source: T. Uyeda, *The Growth of Population and Occupational Changes in Japan, 1920-1935*. There is a slight discrepancy between these totals and the figures for employment in manufacturing industry in Table III; this is due to a minor difference in classification.

TABLE V
DISTRIBUTION OF FACTORY EMPLOYMENT AMONG CHIEF
INDUSTRIAL GROUPS
(*Employment in each Group as Percentage of Total Employment*)

| | 1923 | 1926 | 1929 | 1933 | 1936 |
|---|-------|-------|-------|-------|-------|
| Textiles | 52.2 | 53.2 | 50.4 | 43.4 | 37.9 |
| Metals | 5.2 | 5.3 | 6.2 | 7.4 | 9.7 |
| Machinery, Vehicles, Tools, etc. | 13.0 | 12.6 | 13.8 | 15.9 | 18.3 |
| Ceramics | 3.8 | 3.5 | 3.5 | 3.4 | 3.9 |
| Chemicals | 5.5 | 5.4 | 6.4 | 8.0 | 11.1 |
| Wood-working | 2.8 | 2.8 | 3.0 | 4.3 | 3.7 |
| Printing, Book-binding, etc. | 2.3 | 2.7 | 2.9 | 3.3 | 2.4 |
| Food and Drink | 9.6 | 8.9 | 8.7 | 6.8 | 6.7 |
| Gas and Electricity | 0.3 | 0.4 | 0.5 | 0.4 | 0.4 |
| Others | 4.4 | 5.0 | 4.6 | 7.0 | 5.9 |
| | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Department of Commerce and Industry, *Factory Statistics*. The table does not cover small factories with less than five workers, nor does it cover employment in Government factories.

TABLE VI
NUMBER OF FACTORY OPERATIVES, 1900-1937
(in thousands)

| Year | Males | Females | Total |
|------|-------|---------|-------|
| 1900 | 165 | 257 | 422 |
| 1904 | 208 | 318 | 526 |
| 1909 | 307 | 494 | 801 |
| 1914 | 384 | 564 | 948 |
| 1919 | 741 | 871 | 1,612 |
| 1925 | 852 | 956 | 1,808 |
| 1929 | 855 | 970 | 1,825 |
| 1933 | 968 | 933 | 1,901 |
| 1936 | 1,458 | 1,135 | 2,593 |
| 1937 | 1,727 | 1,210 | 2,937 |

Source: Department of Commerce and Industry, *Factory Statistics*. The figures for 1900 and 1904 are of factories employing ten persons or more. The figures for the years from 1909 to 1925 are of factories employing five or more persons. The figures for the remaining years are of factories equipped to employ five or more persons.

TABLE VII
DISTRIBUTION OF EMPLOYMENT ACCORDING TO SIZE OF
ESTABLISHMENT IN MANUFACTURING INDUSTRIES IN 1930

| Size Group | Number in Thousands | Per cent of Total Employment |
|---------------------------|---------------------|------------------------------|
| Under 5 persons | 2,345 | 53 |
| 5-9 persons | 271 | 6 |
| 10-49 persons | 497 | 11 |
| 50 persons and over | 1,330 | 30 |
| Total | 4,433 | 100 |

Source: T. Uyeda, *The Growth of Population and Occupational Changes in Japan, 1920-1935* (J.P.R.), p. 8. The table does not cover employment in building and certain other trades; hence the discrepancy between the total figure and that given in Table IV.

TABLE VIII

DISTRIBUTION OF EMPLOYMENT AND PRODUCTION ACCORD-
ING TO SIZE OF ESTABLISHMENT IN THE FACTORY INDUS-
TRIES IN 1934

| Size Group | Percentage of Total Factory Employment | Percentage of Total Value of Factory Output |
|-------------------------|---|--|
| 5-29 persons | 29·1 | 19·2 |
| 30-199 persons | 29·7 | 27·8 |
| 200 persons and over .. | 41·2 | 53·0 |
| | 100·0 | 100·0 |

Source: Department of Commerce and Industry, *Factory Statistics*. The table does not cover factories employing less than five persons.

TABLE IX
 INDICES OF RAW MATERIAL PRODUCTION, 1873-1934
 (Annual Average of Volume of Production in 1921-25 = 100)

| Year | Agricultural (71) | Livestock (6) | Fishery (8) | Forestry (4) | Minerals (11) | All Raw Materials (100) ¹ |
|------|----------------------|------------------|----------------|-----------------|------------------|--|
| 1873 | 28.6 | — | — | — | — | 15.7 |
| 1880 | 37.2 | 3.9 | — | — | 3.7 | 23.4 |
| 1890 | 50.1 | 11.3 | — | — | 11.2 | 36.7 |
| 1900 | 65.3 | 34.4 | 16.8 | 26.6 | 28.2 | 52.1 |
| 1910 | 76.4 | 56.0 | 33.9 | 72.9 | 61.3 | 68.4 |
| 1913 | 84.6 | 58.0 | 45.4 | 77.6 | 81.3 | 78.1 |
| 1920 | 104.1 | 77.5 | 82.9 | 95.7 | 105.5 | 100.3 |
| 1921 | 96.4 | 89.2 | 79.6 | 104.6 | 91.4 | 94.2 |
| 1922 | 100.7 | 94.9 | 88.4 | 96.1 | 94.9 | 98.5 |
| 1923 | 96.0 | 98.6 | 102.2 | 104.1 | 100.6 | 97.5 |
| 1924 | 98.9 | 105.9 | 104.0 | 97.8 | 102.9 | 100.1 |
| 1925 | 106.8 | 109.9 | 115.7 | 96.0 | 108.8 | 107.4 |
| 1926 | 102.0 | 110.7 | 120.2 | 97.0 | 111.4 | 104.7 |
| 1927 | 109.5 | 115.2 | 125.8 | 98.9 | 117.8 | 111.5 |
| 1928 | 108.5 | 128.3 | 118.9 | 105.2 | 121.5 | 111.7 |
| 1929 | 108.8 | 138.5 | 126.5 | 107.0 | 124.8 | 113.4 |
| 1930 | 117.9 | 135.0 | 123.9 | 101.1 | 120.6 | 118.9 |
| 1931 | 104.2 | 149.9 | 133.1 | 104.9 | 113.5 | 109.7 |
| 1932 | 108.4 | 172.0 | 132.1 | 110.1 | 113.8 | 113.9 |
| 1933 | 125.7 | 168.2 | 155.6 | 117.7 | 128.0 | 130.1 |
| 1934 | 101.0 | 171.5 | 151.4 | 129.0 | 141.2 | 112.9 |

Source: Y. Koide, *Physical Volume of Raw Material Production in Japan*.

¹ Figures in brackets give weights.

TABLE X
RELATIVE IMPORTANCE OF THE PRINCIPAL AGRICULTURAL
PRODUCTS

(in percentages of total value of output for Japan Proper)

| | 1926 | 1931 | 1936 |
|-----------------------------------|------|------|------|
| Rice | 49 | 46 | 53 |
| Cocoons | 17 | 14 | 11 |
| Wheat, Barley, Oats | 8 | 8 | 9 |
| Vegetables | 7 | 8 | 7 |
| Beans, Potatoes and Other Cereals | 6 | 6 | 6 |
| Industrial Crops | 3 | 4 | 3 |
| Meat | 2 | 3 | 3 |
| Eggs | 2 | 4 | 3 |
| All Others | 6 | 7 | 6 |
| | 100 | 100 | 100 |

Source: E. F. Penrose, in *The Industrialization of Japan and Manchukuo* (Ed. Schumpeter), p. 131.

"All Others" include, Fruit, Poultry, Milk, Tea and Green Manures.

TABLE XI
RICE PRODUCTION AND CONSUMPTION, 1880-1937
(*Annual Averages*)

| Period | Production (in million koku) | Yield per Cho (in koku) | Net Import (+) or Net Export (-) (in million koku) | Consumption per Head (in koku) |
|---------|---------------------------------|----------------------------|--|--------------------------------------|
| 1880-84 | 29.96 | 11.59 | - 0.18 | 0.80 |
| 1885-89 | 36.58 | 13.78 | - 0.74 | 0.93 |
| 1890-94 | 40.36 | 14.64 | + 0.37 | 1.01 |
| 1895-99 | 39.27 | 14.00 | + 1.15 | 0.95 |
| 1900-04 | 44.64 | 15.64 | + 2.74 | 1.05 |
| 1905-09 | 47.58 | 16.34 | + 3.18 | 1.07 |
| 1910-14 | 51.17 | 17.06 | + 2.96 | 1.07 |
| 1915-19 | 56.89 | 18.46 | + 4.18 | 1.13 |
| 1920-24 | 56.34 | 18.59 | + 5.91 | 1.10 |
| 1925-29 | 59.45 | 18.71 | + 10.01 | 1.14 |
| 1930-34 | 62.23 | 18.95 | + 10.80 | 1.08 |
| 1935-37 | 63.71 | 19.50 | + 12.46 | 1.06 |

Sources: Statistical Section, Department of Agriculture and Forestry, *Statistics of Rice*, quoted in Ishii, *op. cit.*, p. 165; and E. F. Penrose, in Schumpeter (ed.), *op. cit.*, pp. 151-3. The total area under rice increased only from 2,685,000 cho in 1888 to 3,127,000 cho in 1920 and to 3,217,000 cho in 1937. The figures in the fourth column include trade between Japan Proper and her Colonies.

TABLE XII
PRODUCTION AND EXPORT OF RAW SILK, 1868-1936

| Year | Production (in thousand kwan) | Exports | |
|----------------------------|-------------------------------------|-----------------------|------------------|
| | | (in thousand kwan) | (in million yen) |
| 1868-72 (annual average) | (1868) 278 | 175 | 6 |
| 1889-93 (annual average) | 1,110 | 662 | 27 |
| 1899-1903 (annual average) | 1,924 | 1,110 | 69 |
| 1909-13 (annual average) | 3,375 | 2,563 | 144 |
| 1919-23 (annual average) | 6,317 | 4,224 | 531 |
| 1924-28 (annual average) | 9,085 | 7,358 | 753 |
| 1929 | 11,292 | 9,140 | 781 |
| 1930 | 11,365 | 7,471 | 417 |
| 1931 | 11,683 | 8,839 | 355 |
| 1932 | 11,091 | 8,691 | 382 |
| 1933 | 11,243 | 7,684 | 391 |
| 1934 | 12,065 | 8,045 | 287 |
| 1935 | 11,643 | 8,795 | 387 |
| 1936 | 11,287 | 8,054 | 392 |

Sources: Oriental Economist, *Foreign Trade of Japan: A Statistical Survey*; and *Japan Silk Year-Book*.

TABLE XIII
INDICES OF PRODUCTION¹
(1905 = 100)

| Year | Total Production | Manufactured Goods |
|------|------------------|--------------------|
| 1907 | 115 | 108 |
| 1910 | 126 | 121 |
| 1913 | 157 | 164 |
| 1916 | 194 | 222 |
| 1920 | 232 | 289 |
| 1921 | 219 | 274 |
| 1924 | 258 | 366 |
| 1926 | 285 | 435 |
| 1929 | 328 | 532 |
| 1931 | 302 | 475 |

INDICES OF INDUSTRIAL PRODUCTION¹
(1931-33 = 100)

| Year | General Index | Consumers' Goods | Producers' Goods |
|------|---------------|------------------|------------------|
| 1930 | 94 | 94 | 94 |
| 1931 | 91 | 95 | 87 |
| 1932 | 97 | 98 | 96 |
| 1933 | 112 | 107 | 117 |
| 1934 | 126 | 116 | 136 |
| 1935 | 139 | 125 | 153 |
| 1936 | 149 | 125 | 172 |
| 1937 | 167 | 137 | 198 |

Index compiled by the Nagoya Imperial College of Commerce.
Oriental Economist's Index.

TABLE XIV
STATISTICS OF THE COTTON INDUSTRY

A. IMPORT OF RAW COTTON¹

(in thousand piculs)

| | | | | | |
|---------|----|-------|---------|----|--------|
| 1875-79 | .. | 20 | 1910-14 | .. | 5,610 |
| 1880-84 | .. | 30 | 1915-19 | .. | 7,490 |
| 1885-89 | .. | 100 | 1920-24 | .. | 8,460 |
| 1890-94 | .. | 710 | 1925-29 | .. | 11,190 |
| 1895-99 | .. | 2,230 | 1930-34 | .. | 11,900 |
| 1900-04 | .. | 2,740 | 1935-37 | .. | 13,750 |
| 1905-09 | .. | 3,610 | | | |

B. YARN OUTPUT¹

(in million lb.)

| | | | | | |
|---------|----|-----|---------|----|-------|
| 1894-98 | .. | 177 | 1925-29 | .. | 1,026 |
| 1909-13 | .. | 492 | 1930-34 | .. | 1,158 |
| 1919-23 | .. | 796 | 1935-37 | .. | 1,485 |

C. EXPORTS OF COTTON GOODS

| Year | Piece-Goods ² | | Yarn (in million lb.) |
|------|---------------------------|------------------|--------------------------|
| | (in million square yards) | (in million yen) | |
| 1896 | — | — | 17 |
| 1900 | 22 | 5·7 | 83 |
| 1903 | 41 | 6·9 | 123 |
| 1907 | 67 | 16·3 | 91 |
| 1913 | 235 | 33·6 | 187 |
| 1918 | 1,006 | 237·9 | 169 |
| 1921 | 689 | 204·7 | 117 |
| 1925 | 1,298 | 432·9 | 124 |
| 1929 | 1,791 | 412·7 | 27 |
| 1931 | 1,414 | 198·7 | 13 |
| 1934 | 2,577 | 492·4 | 26 |
| 1936 | 2,710 | 483·6 | 44 |

¹ Annual Averages.² For the years before 1913 the quantity-figures are in linear yards; the value figures include types of goods additional to those covered in the first column.

D. EQUIPMENT OF COTTON SPINNING INDUSTRY.

| Year ending | Number of Cotton Spindles in place (in thousands) ¹ | Number of Looms Owned by Spinning Companies (in thousands) |
|-------------|--|--|
| 1877 | 8 | — |
| 1887 | 77 | — |
| 1893 | 382 | — |
| 1897 | 971 | — |
| 1903 | 1,381 | 5 |
| 1907 | 1,540 | 9 |
| 1913 | 2,415 | 24 |
| 1920 | 3,814 | 51 |
| 1925 | 5,186 | 68 |
| 1929 | 6,650 | 74 |
| 1933 | 8,525 | 84 |
| 1935 | 10,330 | 90 |
| 1936 | 11,853 | — |

E. TOTAL NUMBER OF LOOMS IN COTTON INDUSTRY
(in thousands)

| Type of Loom | 1922 | 1926 | 1929 | 1936 |
|-------------------|------|------|------|------|
| Hand-loom | 165 | 105 | 86 | 51 |
| Narrow Power-loom | 122 | 116 | 106 | 76 |
| Wide Power-loom | 96 | 146 | 171 | 266 |

Sources: Department of Commerce and Industry, *Statistics of Commerce and Industry*; Japan Cotton Spinners' Association, *Cotton Statistics of Japan*; Oriental Economist, *Foreign Trade of Japan: A Statistical Survey*.

¹ Mainly ring spindles, the number of mules being very small.

TABLE XV
STATISTICS OF THE WOOLLEN AND WORSTED INDUSTRY
(in million lb.)

| Annual Averages | Raw Wool Imports | Yarn | | | Tops | |
|-----------------|------------------|---------|---------|-------------------|------------------|-------------------|
| | | Imports | Exports | Output | Imports | Output |
| 1896-1900 | 5.5 | 1.2 | — | — | — | — |
| 1901-05 | 8.7 | 2.6 | — | — | 2.8 ³ | — |
| 1906-10 | 9.9 | 3.7 | — | — | 5.3 | — |
| 1911-14 | 11.4 | 5.8 | 0.2 | — | 8.4 | — |
| 1915-19 | 47.1 | 0.4 | 0.6 | — | 4.9 | — |
| 1920-24 | 57.2 | 13.9 | 0.2 | 33.0 ¹ | 7.9 | 19.2 ² |
| 1925-29 | 93.2 | 13.1 | 0.3 | 52.8 | 5.7 | 35.8 |
| 1930-34 | 186.5 | 4.7 | 2.4 | 85.4 | 0.1 | 75.2 |
| 1935-37 | 239.2 | .8 | 6.6 | — | — | — |

TISSUES

| Year | Output (million yards) | | | Output | Imports (all kinds) (million yen) | Exports (all kinds) (million yen) |
|------|------------------------|-------|---------------|--|---|---|
| | Muslin | Serge | Woollen Cloth | Total Value (including other kinds) (in million yen) | | |
| 1900 | 5.1 | 0.4 | 0.8 | — | 17.8 | — |
| 1907 | 23.8 | 1.3 | 2.6 | 19.9 | 12.2 | 0.2 |
| 1913 | 69.6 | 9.8 | 1.8 | 23.3 | 12.4 | 0.5 |
| 1922 | 89.3 | 24.5 | 6.7 | 136.5 | 50.0 | 1.8 |
| 1925 | 127.6 | 28.3 | 5.4 | 182.5 | 57.2 | 3.7 |
| 1929 | 165.6 | 47.6 | 9.0 | 210.5 | 19.9 | 4.3 |
| 1934 | 132.9 | 90.5 | 16.9 | 264.0 | 5.2 | 29.8 |
| 1936 | — | — | — | 340.0 | 1.0 | 46.0 |

Sources: Oriental Economist, *The Foreign Trade of Japan: A Statistical Survey*; Department of Commerce, *Statistics of Commerce and Industry*.

TABLE XVI
IRON AND STEEL PRODUCTION
(in thousand metric tons)

| Year | Pig Iron | Finished Steel |
|------|----------|----------------|
| 1896 | 26 | 1 |
| 1906 | 145 | 69 |
| 1913 | 243 | 255 |
| 1920 | 521 | 533 |
| 1925 | 685 | 1,043 |
| 1929 | 1,087 | 2,034 |
| 1931 | 917 | 1,663 |
| 1936 | 2,008 | 4,539 |

Source: Department of Commerce and Industry, *References for Steel Works*.

TABLE XVII
COAL PRODUCTION
(in million metric tons)

| | | | | | |
|------|----|------|------|----|------|
| 1875 | .. | 0.6 | 1921 | .. | 26.2 |
| 1885 | .. | 1.2 | 1925 | .. | 31.5 |
| 1895 | .. | 5.0 | 1929 | .. | 34.3 |
| 1905 | .. | 13.0 | 1931 | .. | 28.0 |
| 1913 | .. | 21.3 | 1936 | .. | 41.8 |
| 1919 | .. | 31.3 | | | |

Source: Department of Commerce and Industry, Mines Bureau, *General Conditions of Mining Industry in Japan*.

TABLE XVIII
ELECTRICITY GENERATING CAPACITY IN OPERATION
(in thousand kilowatts)

| | | | | | |
|------|----|-------|------|----|-------|
| 1913 | .. | 504 | 1930 | .. | 4,399 |
| 1920 | .. | 1,214 | 1936 | .. | 6,777 |
| 1925 | .. | 2,768 | | | |

Source: *Economic Statistics of Japan*.

TABLE XIX
SHIPBUILDING

(Annual averages)

| Period | Steamships and Motor Ships Launched (in thousand gross tons) | |
|-----------|---|-----|
| 1899-1903 | 23 | |
| 1904-08 | 41 | |
| 1909-13 | 52 | |
| 1914-18 | 267 | |
| 1919-23 | 294 | |
| | 1919 | 646 |
| | 1922 | 71 |
| 1924-28 | 66 | |
| 1929-33 | 106 | |
| | 1929 | 165 |
| | 1932 | 54 |
| 1934-37 | 259 | |
| | 1936 | 295 |

Source: Department of Communications, *Record of Ships and Shipbuilding*; and *Statistical Year-Book of League of Nations*.

TABLE XX
TRANSPORT

| Year | | | Mileage of Railway Track (in units) | Year | | | Mercantile Marine (in thousand gross tons) |
|------|----|----|---|------|----|----|--|
| 1872 | .. | .. | 18 | 1872 | .. | .. | 26 |
| 1883 | .. | .. | 240 | 1880 | .. | .. | 66 |
| 1887 | .. | .. | 640 | 1890 | .. | .. | 143 |
| 1894 | .. | .. | 2,100 | 1896 | .. | .. | 363 |
| 1904 | .. | .. | 4,700 | 1903 | .. | .. | 657 |
| 1914 | .. | .. | 7,100 | 1913 | .. | .. | 1,514 |
| 1924 | .. | .. | 10,400 | 1925 | .. | .. | 3,496 |
| 1930 | .. | .. | 13,400 | 1929 | .. | .. | 3,802 |
| 1934 | .. | .. | 14,500 | 1931 | .. | .. | 3,918 |
| | | | | 1934 | .. | .. | 3,812 |

Sources: *Financial and Economic Annual*; *Statistical Year-Book of Japanese Empire*. The figures in the second column exclude sailing ships and cover vessels of 20 gross tons and over registered in Japan Proper.

TABLE XXI
FOREIGN TRADE OF JAPAN PROPER, 1868-1937
(*Excluding trade between Japan Proper and her Colonies*)
(*in million yen*)

| Period | | Imports | Exports |
|-----------|----------------------|---------|---------|
| 1868-72 | (annual average) .. | 23 | 16 |
| 1873-77 | (annual average) .. | 27 | 22 |
| 1878-82 | (annual average) .. | 33 | 30 |
| 1883-87 | (annual average) .. | 33 | 42 |
| 1888-93 | (annual average) ... | 73 | 77 |
| 1894-98 | (annual average) .. | 223 | 139 |
| 1899-1903 | (annual average) .. | 270 | 244 |
| 1904-08 | (annual average) .. | 442 | 377 |
| 1909-13 | (annual average) .. | 544 | 496 |
| 1914-20 | (annual average) .. | 1,300 | 1,434 |

| Year | Imports | Exports | Year | Imports | Exports |
|------|---------|---------|------|---------|---------|
| 1919 | 2,173 | 2,099 | 1929 | 2,216 | 2,149 |
| 1920 | 2,336 | 1,948 | 1930 | 1,546 | 1,470 |
| 1921 | 1,614 | 1,253 | 1931 | 1,236 | 1,147 |
| 1922 | 1,890 | 1,638 | 1932 | 1,432 | 1,410 |
| 1923 | 1,982 | 1,448 | 1933 | 1,917 | 1,861 |
| 1924 | 2,453 | 1,807 | 1934 | 2,283 | 2,172 |
| 1925 | 2,573 | 2,306 | 1935 | 2,472 | 2,499 |
| 1926 | 2,377 | 2,045 | 1936 | 2,764 | 2,693 |
| 1927 | 2,179 | 1,992 | 1937 | 3,783 | 3,175 |
| 1928 | 2,196 | 1,972 | | | |

Source: Oriental Economist, *The Foreign Trade of Japan: A Statistical Survey* (mainly). The tables dealing with foreign trade apply to Japan Proper and Southern Saghalien. The exports include a small amount of re-exports.

TABLE XXII
INDICES SHOWING CHANGES IN VOLUME OF FOREIGN TRADE
(1913 = 100)

| Year | <i>Oriental Economist's</i> Index | Professor Shibata's Index | |
|------|-----------------------------------|---------------------------|---------|
| | Total Trade | Exports | Imports |
| 1873 | 5.9 | — | — |
| 1880 | 9.7 | — | — |
| 1885 | 11.0 | — | — |
| 1890 | 19.7 | — | — |
| 1895 | 28.5 | — | — |
| 1900 | 40.2 | — | — |
| 1905 | 66.0 | — | — |
| 1910 | 75.1 | — | — |
| 1913 | 100.0 | 100.0 | 100.0 |
| 1916 | 109.4 | 120.1 | 92.1 |
| 1918 | 124.5 | 138.2 | 109.8 |
| 1920 | 116.6 | 105.1 | 119.2 |
| 1922 | 144.2 | 144.5 | 170.0 |
| 1925 | 167.0 | 186.1 | 183.0 |
| 1929 | 200.5 | 233.0 | 221.1 |
| 1931 | 190.6 | 196.2 | 210.1 |
| 1934 | 241.1 | 240.1 | 245.0 |

TABLE XXIII
STRUCTURE OF JAPAN'S EXPORT TRADE

(The value of each group shown as percentage of total exports)

| Period | Food and Drink | Raw Materials | Semi-Manufactured Goods | Finished Goods | Others |
|---------|----------------|---------------|-------------------------|----------------|--------|
| 1868-72 | 25.4 | 23.1 | 40.8 | 1.9 | 8.8 |
| 1878-82 | 37.1 | 11.6 | 40.4 | 7.2 | 3.7 |
| 1893-97 | 16.8 | 10.3 | 43.3 | 26.2 | 3.4 |
| 1903-07 | 11.9 | 9.1 | 45.3 | 31.1 | 2.6 |
| 1908-12 | 11.1 | 9.2 | 48.1 | 30.5 | 1.1 |
| 1918-22 | 7.6 | 5.8 | 42.4 | 42.6 | 1.6 |
| 1923-27 | 6.7 | 6.5 | 45.9 | 39.8 | 1.1 |
| 1928-32 | 8.3 | 4.2 | 39.0 | 46.8 | 1.7 |
| 1933-36 | 8.0 | 4.4 | 26.4 | 58.4 | 2.8 |

STRUCTURE OF JAPAN'S IMPORT TRADE

(The value of each group shown as percentage of total imports)

| Period | Food and Drink | Raw Materials | Semi-Manufactured Goods | Finished Goods | Others |
|---------|----------------|---------------|-------------------------|----------------|--------|
| 1868-72 | 29.0 | 4.1 | 20.2 | 44.5 | 2.2 |
| 1878-82 | 14.8 | 3.5 | 29.9 | 48.6 | 3.2 |
| 1893-97 | 20.8 | 22.7 | 19.1 | 35.1 | 2.3 |
| 1903-07 | 23.5 | 33.0 | 16.7 | 25.5 | 1.3 |
| 1908-12 | 12.0 | 44.3 | 18.9 | 24.1 | 0.7 |
| 1918-22 | 12.9 | 49.2 | 22.2 | 15.0 | 0.7 |
| 1923-27 | 14.3 | 53.5 | 16.1 | 15.5 | 0.6 |
| 1928-32 | 12.7 | 55.3 | 15.5 | 15.7 | 0.8 |
| 1933-36 | 8.2 | 61.8 | 17.8 | 11.3 | 0.9 |

Source: K. Taniguchi, "Strukturwandlungen des japanischen Aussenhandels im Laufe des Industrialisierungsprozesses," in *Weltwirtschaftliches Archiv*, July 1937. The table does not cover trade between Japan Proper and her Colonies.

TABLE XXIV
WHOLESALE PRICE INDEX, 1900-1936
(October, 1900 = 100)

| Average for Year | | | Average for Year | | | Average for Year | | |
|------------------|----|-----|------------------|----|-----|------------------|----|-----|
| 1900 | .. | 100 | 1913 | .. | 132 | 1925 | .. | 267 |
| 1901 | .. | 96 | 1914 | .. | 126 | 1926 | .. | 237 |
| 1902 | .. | 97 | 1915 | .. | 128 | 1927 | .. | 225 |
| 1903 | .. | 103 | 1916 | .. | 155 | 1928 | .. | 226 |
| 1904 | .. | 108 | 1917 | .. | 195 | 1929 | .. | 220 |
| 1905 | .. | 116 | 1918 | .. | 255 | 1930 | .. | 181 |
| 1906 | .. | 120 | 1919 | .. | 312 | 1931 | .. | 153 |
| 1907 | .. | 129 | 1920 | .. | 343 | 1932 | .. | 161 |
| 1908 | .. | 125 | 1921 | .. | 265 | 1933 | .. | 180 |
| 1909 | .. | 119 | 1922 | .. | 259 | 1934 | .. | 178 |
| 1910 | .. | 120 | 1923 | .. | 264 | 1935 | .. | 186 |
| 1911 | .. | 125 | 1924 | .. | 273 | 1936 | .. | 198 |
| 1912 | .. | 132 | | | | | | |

Bank of Japan's index
unweighted index.

an

TABLE XXV
TOKYO COST OF LIVING INDEX, 1914-33
(1914 = 100)

| Average for Year | | | Average for Year | | | Average for Year | | |
|------------------|----|-----|------------------|--|-----|------------------|----|-----|
| 1915 | .. | 93 | 1922 | | 223 | 1928 | .. | 199 |
| 1916 | .. | 101 | | | 215 | 1929 | .. | 193 |
| 1917 | .. | 124 | 1923 | | 205 | 1930 | .. | 175 |
| 1918 | .. | 174 | 1924 | | 208 | 1931 | .. | 156 |
| 1919 | .. | 217 | 1925 | | 214 | 1932 | .. | 157 |
| 1920 | .. | 235 | 1926 | | 208 | 1933 | .. | 161 |
| 1921 | .. | 208 | 1927 | | 204 | | | |

Source: T. Uyeda, *The Small Industries of Japan*, p. 298. The break at 1922 is explained by Uyeda's use of two incomplete series.

TABLE XXVI
INDICES OF WAGE MOVEMENTS
(Tokyo)
(1914 = 100)

| Average for Year | Actual Earnings (a) | Cost of Living (b) | Real Wage Index |
|------------------|---------------------|--------------------|-----------------|
| 1918 | 164 | 174 | 94 |
| 1921 | 297 | 208 | 143 |
| 1924 | 356 | 208 | 171 |
| 1926 | 348 | 208 | 168 |
| 1929 | 331 | 193 | 171 |
| 1931 | 296 | 156 | 190 |
| 1933 | 290 | 161 | 180 |

(1926 = 100)

| Average for Year | Wage Rates (c) | Actual Earnings (d) | Cost of Living (e) | Real Wage Index |
|------------------|----------------|---------------------|--------------------|-----------------|
| 1929 | 99 | 104 | 91 | 114 |
| 1930 | 96 | 99 | 78 | 127 |
| 1931 | 91 | 91 | 68 | 137 |
| 1932 | 88 | 88 | 69 | 128 |
| 1933 | 85 | 89 | 73 | 122 |
| 1934 | 83 | 91 | 75 | 121 |
| 1935 | 81 | 91 | 76 | 120 |
| 1936 | 81 | 92 | 80 | 115 |

(a) Ministry of Commerce and Industry's Index.

(b) Uyeda's Index.

(c), (d) and (e) Bank of Japan's Indices.

TABLE XXVII
NUMBER OF BANKS (HEAD OFFICES), 1893-1934

| Year | Special Banks | Savings Banks | Ordinary Banks | Total |
|------|---------------|---------------|----------------|-------|
| 1893 | — | — | — | 703 |
| 1901 | — | — | — | 2,359 |
| 1913 | 53 | 648 | 1,457 | 2,158 |
| 1922 | 34 | 145 | 1,794 | 1,973 |
| 1926 | 32 | 123 | 1,417 | 1,572 |
| 1929 | 33 | 94 | 874 | 1,001 |
| 1934 | 32 | 78 | 481 | 581 |

Source: *Financial and Economic Annual of Japan*.

TABLE XXVIII
NOTE ISSUE OF THE BANK OF JAPAN, 1897-1936
(in million yen)

| End of Year | | End of Year | | End of Year | |
|-------------|-----|-------------|-------|-------------|-------|
| 1897 .. | 226 | 1919 .. | 1,555 | 1929 .. | 1,642 |
| 1903 .. | 233 | 1920 .. | 1,439 | 1931 .. | 1,331 |
| 1906 .. | 342 | 1923 .. | 1,704 | 1934 .. | 1,627 |
| 1910 .. | 402 | 1926 .. | 1,570 | 1936 .. | 1,866 |
| 1913 .. | 426 | 1928 .. | 1,739 | | |

TABLE XXIX
SPECIE HOLDINGS OF BANK OF JAPAN AND GOVERNMENT
1903-1936
(in million yen)

| Year ending | At Home | Abroad | Total |
|-------------|---------|--------|-------|
| 1903 | 120 | 19 | 139 |
| 1905 | 37 | 442 | 479 |
| 1910 | 135 | 337 | 472 |
| 1913 | 130 | 246 | 376 |
| 1919 | 702 | 1,343 | 2,045 |
| 1920 | 1,116 | 1,062 | 2,178 |
| 1926 | 1,127 | 230 | 1,357 |
| 1929* | 1,087 | 91 | 1,178 |
| 1931* | — | — | 470 |
| 1936* | — | — | 548 |

Source: Ministry of Finance, *Financial Statistics*.

* The figure for 1929 is for March, shortly before the decision to return to the gold standard was announced. Since 1929 there has been no information given about total holdings, Government holdings or foreign holdings. But as both holdings abroad and Government holdings had become very small by 1929, it may be assumed that the figures for 1931 and 1936 cover substantially all the holdings. It should be noted, however, that they were not revalued after the fall of the yen during this period.

TABLE XXX
EXPENDITURES OF CENTRAL GOVERNMENT, 1869-1937
(in million yen)

| Financial Year | | Financial Year | |
|----------------|----|----------------|------------------|
| 1869-70 | .. | 20 | 1919-20 .. 1,172 |
| 1875-76 | .. | 69 | 1921-22 .. 1,490 |
| 1878-79 | .. | 61 | 1924-25 .. 1,652 |
| 1883-84 | .. | 83 | 1928-29 .. 1,815 |
| 1889-90 | .. | 82 | 1930-31 .. 1,558 |
| 1893-94 | .. | 85 | 1931-32 .. 1,477 |
| 1898-99 | .. | 220 | 1932-33 .. 1,950 |
| 1903-04 | .. | 250 | 1933-34 .. 2,255 |
| 1908-09 | .. | 636 | 1934-35 .. 2,163 |
| 1913-14 | .. | 574 | 1935-36 .. 2,206 |
| 1917-18 | .. | 735 | 1936-37 .. 2,282 |

Source: A. Andreades, *op. cit.*, *passim*; and *Financial and Economic Annual of Japan*.

TABLE XXXI
NATIONAL DEBT, 1872-1937
(in million yen)

| Year | Internal | External | Total |
|------|----------|----------|--------|
| 1872 | 23 | 10 | 33 |
| 1877 | 213 | 27 | 240 |
| 1885 | 223 | 16 | 239 |
| 1894 | 230 | 4 | 234 |
| 1903 | 441 | 98 | 539 |
| 1907 | 1,078 | 1,166 | 2,244 |
| 1914 | 1,036 | 1,525 | 2,561 |
| 1919 | 1,995 | 1,331 | 3,326 |
| 1926 | 3,685 | 1,478 | 5,163 |
| 1929 | 4,459 | 1,447 | 5,906 |
| 1931 | 4,477 | 1,479 | 5,956 |
| 1936 | 8,522 | 1,332 | 9,854 |
| 1937 | 9,258 | 1,317 | 10,575 |

Source: Department of Finance, *Statistical Annual of National Debt*; and *Financial and Economic Annual of Japan*.

The year covered is the calendar year, except for 1931, 1936 and 1937, when the figures are for March 31st. Certain temporary borrowings (Rice Purchase Notes and Treasury Bills) are excluded; but the figures for the internal debt include the funded Iron Foundry Debt and the State Railway Debt. The latter rose from 27 million yen in 1894 to 729 million yen in 1914 and to 1,757 million yen in 1934.

TABLE XXXII
ESTIMATES OF NATIONAL INCOME
(in million yen)

| | 1930 ¹ | 1937 ² |
|--|-------------------|-------------------|
| Manufacturing Industry | 3,483 | 7,906 |
| Mining | 250 | 583 |
| Agriculture and Forestry | 1,883 | 3,166 |
| Aquatic Industry | 190 | 243 |
| Commerce | 2,706 | 3,888 |
| Distributive Trades | 841 | 1,166 |
| Services and Professions | 1,347 | 1,694 |
| Balance of Income due from Foreigners .. | — 64 | 154 |
| Total | 10,636 | 18,800 |

¹ Estimate by the Cabinet Bureau of Statistics.

² Estimate by Professor K. Takahashi.

APPENDIX C

Bibliography

THE following list of publications is intended to indicate the chief printed sources which have been used in the writing of this book and to provide guidance to those who wish to pursue further the study of the topics discussed in it. Publications in the Japanese language are marked thus: (J). Pamphlets prepared for the Institute of Pacific Relations are indicated by the letters (I.P.R.). Readers are also referred to the Bibliography on Japanese Industrialization in *Weltwirtschaftliches Archiv*, July 1937, pp. 332-366.

I

GENERAL

(MAINLY STATISTICAL SOURCES)

- (J) Bank of Japan, *Statistics of Factory and Mining Labour* (Monthly).
- (J) Department of Commerce and Industry, *Factory Statistics* (Annual).
- (J) Department of Commerce and Industry, *Statistics of Commerce and Industry* (Annual).
- (J) Department of Commerce and Industry, Mines Bureau, *General Conditions of Mining Industry in Japan* (Annual).
- (J) Department of Commerce and Industry, *References for Steel Works* (Annual).
- Department of Agriculture and Forestry, *Statistical Abstract of the Ministry of Agriculture and Forestry* (Annual).
- Department of Finance, *Financial and Economic Annual of Japan*.
- F. V. Field (Ed.), *Economic Handbook of the Pacific Area*, 1934.
- M. Iketani, *The Japan Silk Year-Book*.
- (J) Imperial Cabinet, Bureau of Statistics, *Reports of the Censuses of Population*, 1920, 1925, 1930, 1935.
- Imperial Cabinet, Bureau of Statistics, *Population of Japan*, 1920, 1925.
- Imperial Cabinet, Bureau of Statistics, *Résumé Statistique de l'Empire du Japon* (Annual).
- (J) Imperial Cabinet, Bureau of Statistics, *Statistical Year-Book of the Empire of Japan*.
- Japan Cotton Spinners' Association, *Cotton Statistics of Japan*, 1903-35.

- (J) Japan Cotton Spinners' Association, *Bi-Annual Reports*.
The Japan Year Book.
The Japan-Manchukuo Year-Book.
 K. Kohri, *General Features of the Index Numbers of Japan*, 1932.
- (J) V. Koide, *Physical Volume of Raw Material Production in Japan*, 1936.
- (J) Nagoya Imperial College of Commerce, *Japanese Economic Statistics*, 1936.
 Oriental Economist, *The Foreign Trade of Japan: A Statistical Survey*, 1935.
- E. F. Penrose, *Food Supply and Raw Materials in Japan*, 1929.

Asiatic Society of Japan, *Transactions*.

Kyoto University *Economic Review* (Quarterly).

Mitsubishi Economic Research Bureau, *Monthly Circular*.

Oriental Economist (Monthly).

Société d'Etudes d'Informations Economiques Japon: *Bulletin d'Informations Economiques and Financières* (Quarterly).

II

THE TOKUGAWA PERIOD AND THE EARLY YEARS OF MEIJI

(CHAPTERS I AND II)

The Currency of Japan (A Reprint of Articles, Letters and Official Reports; published by the *Japan Gazette*), 1882.

T. Fukuda, *Die gesellschaftliche und wirtschaftliche Entwicklung in Japan*, 1900.

W. E. Griffis, *The Mikado's Empire* (2 vols.), 1903.

E. Honjo, *A Social and Economic History of Japan*, 1935.

Y. Honyden, "Der Durchbruch des Kapitalismus in Japan," in *Weltwirtschaftliches Archiv*, July 1937.

J. F. Kuiper, "Some Notes on the Foreign Relations of Japan, 1798—1805," in *Trans. of Asiatic Society of Japan*, December 1924.

J. Murdoch, *A History of Japan* (3 vols.), 1910.

S. Okuma, *Fifty Years of New Japan* (2 vols.), 1909.

S. Okuma, *A General View of Financial Policy during Thirteen Years, 1868—1880*, 1880.

S. Okuma, "The Industrial Revolution in Japan," in the *North American Review*, November 1900.

G. B. Sansom, *Japan, A Short Cultural History*, 1931.

- N. Skene Smith, *Tokugawa Japan*, 1937.
N. Skene Smith, *An Introduction to Some Japanese Economic Writings of the Eighteenth Century*, 1935.
M. Takaki, *A History of Japanese Paper Currency*, 1903.
Y. Takekoshi, *Economic Aspects of the History of the Civilization of Japan* (3 vols.), 1930.
M. Takizawa, *The Penetration of a Money Economy in Japan*, 1927.
A. F. Thomas and S. Koyama, *Commercial History of Japan*, 1936.
T. Tsuchiya, *The Development of Economic Life in Japan*, 1936.
T. Tsuchiya, *An Economic History of Japan*.
United States Consular Reports, Vol. XIX.

III

MONEY, BANKING AND PUBLIC FINANCE

(CHAPTERS III, VI AND IX)

- G. C. Allen, "The Recent Currency and Exchange Policy of Japan," in *Economic Journal*, March 1925.
G. C. Allen, *Japan's Banking System* (Japan Chronicle Pamphlet), 1924.
A. Andreades, *Les Finances de l'Empire Japonais et leur Evolution*, 1932.
M. Araki, *The Financial System in Japan* (I.P.R.), 1933.
Foreign Affairs Association of Japan, *A History of Japanese Finance*, 1938.
S. Furuya, *Japan's Foreign Exchange and her Balance of Payments*, 1928.
J. Inouye, *Problems of the Japanese Exchange, 1914-1926*, 1931.
Japanese Department of Finance, *A Brief Outline of the Financial System of Japan*, 1905.
Japan Economic Federation, *The Capital Market of Japan*, 1940.
T. Jones, "The Recent Banking Crisis and Industrial Conditions in Japan," in *Economic Journal*, March 1928.
M. Matsukata, *Report on the Adoption of the Gold Standard in Japan*, 1899.
M. Matsukata, *Report on the Post-Bellum Financial Administration in Japan*.
Mitsui Gomei Kaisha, *The Mitsui Bank: A Brief History*, 1926.
G. Odate, *Japan's Financial Relations with the United States*, 1919.
G. Ogawa, *Expenditures of the Russo-Japanese War*, 1923.
G. Ono, *War and Armament Expenditures of Japan*, 1922.
United States National Monetary Commission, *Reports*, Vol. XVIII, 1910.
United States Department of Commerce, *Japanese Banking*, 1931.

United States Department of Commerce, *The Currency System of Japan*, 1930.

United States Department of Commerce, *The Big Five in Japanese Banking*, 1929.

IV

INDUSTRIAL AND AGRICULTURAL DEVELOPMENT

(CHAPTERS IV, V, VII AND X)

G. C. Allen, *Japanese Industry: Its Recent Development and Present Condition* (I.P.R.), 1939.

G. C. Allen, "Recent Changes in the Organization of the Japanese Cotton Industry," in *Proceedings of the Manchester Statistical Society*, 1937.

I. Asahi, *The Economic Strength of Japan*, 1939.

H. F. Bain, *Ores and Industry in the Far East*, 1933.

D. H. Buchanan, "The Rural Economy of Japan," in *Quarterly Journal of Economics*, 1923.

Department of Overseas Trade, *Report of British Economic Mission to the Far East*, 1930-31.

Department of Overseas Trade, *Report of the Cotton Mission to the Far East*, 1930-31.

Department of Overseas Trade, *Report on the Cotton Spinning and Weaving Industry in Japan*, 1925-26.

M. Iketani, *The Japan Silk Year-Book*.

International Labour Office, *Industrial Labour in Japan*, 1933.

Japan Economic Federation, *The Heavy Industry of Manchukuo*, 1940.

K. Kanai, *The South Manchuria Railway Company's Part in the Economic Development of Manchukuo* (I.P.R.), 1936.

K. Kanai, *Economic Development in Manchukuo* (I.P.R.), 1936.

Katakura and Company (Works pamphlet), 1934.

S. Kawada, "The Japanese Agricultural Community and the Composition of its Population," in *Journal of the Osaka University of Commerce*, 1935.

U. Kobayashi, *The Basic Industries and Social History of Japan*, 1930.

Miyata Bicycle Company (Works pamphlet), no date.

(J) Nagoya Imperial College of Commerce, *The Present Status of the Woollen Industry in Japan*, 1935.

(J) Nagoya Imperial College of Commerce, *Business Analysis of Large-Scale Establishments in our Woollen Industry*, 1936.

- S. Nasu, "Ziele und Ausrichtung der japanischen Agrarpolitik in der Gegenwart," in *Weltwirtschaftliches Archiv*, July 1937.
- S. Nasu, *Land Utilization in Japan* (I.P.R.), 1929.
- Y. Ono, "The Industrial Transition in Japan," in *Publications of American Economic Association*, Vol. 5, No. 1.
- I. Otsuka, "The Survival of Small Undertakings in Japanese Industry," in *Kyoto University Economic Review*, December 1934.
- A. S. Pearse, *The Cotton Industry of China and Japan*, 1932.
- Schumpeter, Allen, Gordon and Penrose, *The Industrialization of Japan and Manchukuo, 1930-40*, 1940.
- United States Tariff Commission, *The Japanese Cotton Industry and Trade*, 1921.
- T. Uyeda, *The Small Industries of Japan*, 1938.
- S. Uyehara, *The Industry and Trade of Japan*, 1926.
- World Engineering Congress, Tokyo, *Industrial Japan*, 1929.

V

ECONOMIC ORGANIZATION AND POLICY

(CHAPTERS VIII, IX AND X)

- G. C. Allen, "The Concentration of Economic Control in Japan," in *Economic Journal*, June 1937.
- (J) Department of Commerce and Industry, *General Conditions of Manufacturers' Guilds* (Kogyo Kumiai), 1936.
- K. Fujita, "Cartels and Their Conflicts in Japan," in the *Journal of the Osaka University of Commerce*, December 1935.
- W. L. Holland (Ed.), *Commodity Control in the Pacific Area*, 1935.
- (J) E. Honjo, *A Study of Nishijin* (Nishijin Kenkyu), 1930.
- (J) R. Iwai, *The Story of Mitsui and Mitsubishi* (Mitsui Mitsubishi Monogatari).
- Japan Council, Institute of Pacific Relations, *The Control of Industry in Japan*, 1933.
- Mitsubishi Goshi Kaisha, *An Outline of Mitsubishi Enterprise*, 1926 and 1935.
- Mitsui Gomei Kaisha, *The House of Mitsui*, 1933.
- (J) Nagoya Imperial College of Commerce, *Manufacturers' Guilds in Relation to Domestic Industry*, 1936.
- M. Royama, *The Control of the Electric Power Industry in Japan* (I.P.R.), 1933.

- (J) *Social Reform* (Shakai Seisaku Jiho), May 1934 and April 1935 (articles on structure of many small-scale trades).
Sumitomo Goshi Kaisha, *Sumitomo*, 1936.
- (J) M. Suzuki, *Essay on the Japanese Zaibatsu* (Nihon Zaibatsu Ron).
- (J) H. Wada, "How Big Capitalists Camouflage Themselves," in *Nippon Hyoron*, June 1936.
- Y. Yagi, "The Relation Between Japan Proper and Korea as seen from the Standpoint of the Rice Supply," in *Kyoto University Economic Review*, 1931.
- N. Yasuo, "Manchukuo's New Economic Policy," in *Pacific Affairs*, September 1938.

VI

FOREIGN TRADE AND COMMERCIAL POLICY

(CHAPTERS V, VI, VIII AND X)

- (J) Department of Commerce and Industry, *General Conditions of Export Guilds* (Yushutsu Kumiai), 1936.
- Department of Finance, *The Import Tariff of Japan*.
- Department of Communications, *History of the Mercantile Marine in Japan*, 1883.
- Y. Hattori, *The Foreign Commerce of Japan Since the Restoration*, 1904.
- Y. Kinoshita, *The Past and Present of Japanese Commerce*, 1902.
- W. W. Lockwood, *Trade and Trade Rivalry between the United States and Japan* (I.P.R.), 1936.
- Nippon Yusen Kaisha, *Golden Jubilee History*, 1935.
- S. Ogata, "The Control of Export Trade in Japan," in the *Journal of the Osaka University of Commerce*, No. 2, 1934.
- S. Ogata, "Probleme der Exportkontrolle in Japan," in *Weltwirtschaftliches Archiv*, May 1936.
- Oriental Economist, *The Foreign Trade of Japan: A Statistical Survey*, 1935.
- K. Taniguchi, "The Concentration and Dispersion of Japan's Foreign Trade," in *Kyoto University Economic Review*, Vol. II, No. 1, 1936.
- Tokyo Association for Liberty of Trading, *A Brief Analysis of Japan's Foreign Trade*, 1935.
- Tokyo Association for Liberty of Trading, *Trade Agreements Between Japan and Some Other Countries*, 1937.
- Tokyo Association for Liberty of Trading, *Export Trade of Japan and Its Control System*, 1938.

- United States Tariff Commission, *Recent Developments in the Foreign Trade of Japan*, 1936.
- T. Uyeda, *The Recent Development of Japanese Foreign Trade* (I.P.R.), 1936.
- T. Uyeda, *Recent Changes in Japanese Tariffs* (I.P.R.), 1933.
- Yokohama and Tokyo Foreign Board of Trade, *Translation of Export Guild Law and List of Export Guilds*, 1934.

VII

MISCELLANEOUS

- K. Akamatsu and Y. Koide, *Industrial and Labour Conditions in Japan*, 1934.
- Bureau of Social Affairs, Home Office, *Social Work in Japan*, 1934.
- Foreign Affairs Association of Japan, *Japan and World Resources*, 1937.
- International Labour Office, *Industrial Labour in Japan*, 1933.
- R. Ishii, *Population Pressure and Economic Life in Japan*, 1937.
- (J) T. Kawanishi, "The Conditions of Living of the Japanese Farmers during the Agricultural Depression since 1930," in *Studies in Commerce and Economics* (St. Paul's University, Tokyo), November 1934.
- S. Kojima, *Natural Resources of Japan* (International Studies Conference), 1938.
- F. Maurette, *Social Aspects of Industrial Development in Japan* (I.L.O.).
- H. G. Moulton, *Japan: An Economic and Financial Appraisal*, 1931.
- K. Ogata, *The Co-operative Movement in Japan*, 1923.
- J. E. Orchard, *Japan's Economic Position*, 1930.
- E. F. Penrose, "Japan in the World Economic Depression," in *Index*, September and October 1935.
- S. Shiomi, "Japan's National Income in 1930," in *Kyoto University Economic Review*, December 1934.
- K. Takahashi, *Factors in Japan's Recent Economic Development* (I.P.R.), 1936.
- A. F. Thomas and S. Kojima, *Commercial History of Japan*, 1936.
- T. Uyeda, *The Growth of Population and Economic Changes in Japan, 1920-1935*, (I.P.R.), 1936.
- T. Uyeda and T. Inokuchi, *The Cost of Living and Real Wages in Japan, 1914-1936* (I.P.R.), 1936.
- T. Uyeda, *The Population Movement in Japan* (International Studies Conference), 1938.
- T. Uyeda, *Future of the Japanese Population* (I.P.R.), 1933.

Index

- Agricultural and Industrial Banks, 48, 101
 Agricultural co-operation, 146
 Agricultural experimental stations, 28
 Agriculture, development of, 57 *et seq.*, 58, 108-11; depression in, 109, 111, 132; in Tokugawa era, 11, 12; subsidies for, 121
 "American Prosperity" and Japan, 97, 99
 Artificial fertilizers, 109
 Asano, 127
 Australia, trade with, 151, 152
 Automobile industry, 118

 Bakufu (military dictatorship), 10
 Balance of payments, 32, 54-5, 91 *et seq.*, 97
 Banking system, main features of, 45 *et seq.*, 51-5, 96, 100 *et seq.*, 134, 184
 Bank of Chosen, 49-50
 Bank of Japan, foundation of, 45-6, 47; note issue of, 46, 184; operations of, 49, 52-3, 92 *et seq.*, 102, 134
 Bank of Taiwan, 49, 96
 Banks, and industry, 94, 100; colonial, 49-50; exchange, 101 (*see also* Yokohama Specie Bank); foreign, 63; national, 38-9, 46, 51; savings, 51; "special," 47 *et seq.*, 100-1, 120
 Barley, 58, 108
 Benevolences (goyokin), 34
 Bicycle industry, 79, 118
 Bonus, semi-annual, 72
 Breweries, 29, 80
 Buddhism, 17
 Building industry, 83, 119

 Camphor monopoly, 43, 120
 Canneries, floating, 111
 Canned fish exports, 111
 Capital, import of, 22, 23-4, 28, 32, 36, 44-5, 49, 86, 95; provision of industrial, 48 *et seq.*, 54, 63-4, 103, 125-8
 Cartels, 76, 145

 Castle-towns, 11, 13, 31
 Cement industry, 29, 81, 107
 Central bank, *see* Bank of Japan
 Chemical industry, 29, 107, 121, 137-8, 142
 China, influence of, 17; trade with, 15, 59, 67, 74, 105, 151
 Chinese boycott, 98
 Choshu clan, 26
 Clan governments, 10 *et seq.*, 26-7
 Coal industry, 14, 74-5, 87-8, 107, 116, 144, 147, 177
 Colonial expansion, 42-3, 49-51
 Colonies, trade with, 49, 104, 152
 Communications, 28; *see also* Railways, Shipping
 Co-operative societies, 124, 146
 Copper industry, 14, 31, 33, 75, 87, 116
 Cotton industry, capacity in, 29, 60, 65-8, 112, 175; efficiency of, 114, 140-2; exports of, 66, 87-8, 98, 105, 150, 174; output of, 13, 29, 67-8, 107, 174; structure of, 66 *et seq.*, 113-14, 139
 Cotton goods, imports of, 32, 65
 Cotton, raw, cultivation of, 12, 59; imports of, 65-6, 67, 174
 Craftsmanship, 13, 73, 156-7

 Dai-Ichi Bank, 49, 100
 Daimyo, 10, 13-14, 20-1
 Dan, Baron, 148
 Debasement of coinage, 20, 34
 Deflation, 47, 93-4, 98-9
 Deposits Bureau of Treasury, 50, 134
 Depreciation of notes, 34, 40
 Depression, world, consequences of, 99-100, 111, 159
 Deshima, 15
 Diet, nature of, 108, 111
 Discount market, 92, 101
 Domestic life, 83, 119
 Domestic industry, system of, 12-14, 33, 82-3, 118-19

- Dormitory system, in factories, 72, 157-8
 Dyestuffs industry, 122
 Dutch, influence of, 18-19; trade with, 15
 Dutch East Indies, markets in, 151
 Earthquake, the Great, 95
 "Earthquake Bills," 95, 96
 Electrical engineering and apparatus, 77-8
 Electric lamp production, 118
 Electric power, 77-8, 107, 146-7, 177
 Emperor, position of, 10, 17, 18, 24-5, 156
 Employment, *see* Factories, employment in
 Engineering, development of, 76-9, 117-18, 137-8; improvements in efficiency of, 143-4
 England, and Meiji Restoration, 26; trade with, 32
 Exchange Companies, 34, 37-8
 Exchange control, 135-6; *see also* Foreign exchange
 Expenditure, public, 33-5, 42-3, 44-5, 95, 186; on Army and Navy, 129
 Export Compensation Scheme, 121
 Export Guilds, 123, 146
 Export surplus, 91
 Export trade, 32, 87-9, 90-1, 93, 104-5, 149-52, 179-81
 Factories, employment in, 71, 78, 116, 137-8; in Tokugawa era, 14, 22, 24; size of, 167-8
 Factory Statistics, 71, 90, 137-8, 166, 167
 Family system, 10, 158
 Fans, manufacture of, 80, 108
 Farming families, number of, 108
 Farms, size of, 58-9, 108
 Fascist influences, 159
 "February Incident," 130, 135, 148
 Feudalism, character of Japanese, 10 *et seq.*; abolition of, 27, 35, 36
 Fifteenth Bank, 39, 96
 Filatures, *see* Silk
 Finance, in Tokugawa era, 14, 19 *et seq.*
 Financial crisis (1927), 96
 Financial difficulties, after Great War, 90 *et seq.*; in early Meiji era, 33 *et seq.*
 Fishery Guilds, 123
 Fishing industry, 12, 59, 88, 111, 123
 Flax, 70
 Food, exports of, 80, 86-7; imports of, 80, 87-8, 104, 109-10
 Foreign exchange balances, 92
 Foreign exchange, conduct of, 92-3, 95 *et seq.*, 102, 135
 Foreign exchange rate, fluctuations in, 40, 47, 95 *et seq.*, 130
 Foreign investment by Japan, 91, 101
 Foreign loans, 22-4, 28, 32, 36, 44-5, 49, 86, 95
 Foreign merchants, 63
 Foreign technical experts, 28, 30, 84
 Foreign trade, Government and, 28, 51-2, 55; in early Meiji era, 31-2; in Tokugawa era, 15-16, 23; structure of, 87-8; *see also* Export trade, Import trade
 Formosa, annexation of, 43; expedition to, 35; trade with, 30, 80, 104
 Fruit farming, 109
 Furukawa, 31, 75, 127
 Geta-making, 83
 Glass industry, 81
 Gold embargo, United States', 92
 Gold exchange standard, 55
 Gold exports and imports, 32, 91-2, 95, 98, 136
 Gold reserve, 54-5, 92, 99, 185
 Gold standard, adoption of, 34, 47; abandonment of, 95, 99; return to, 97
 Great War (1914-18), economic effects of, 90 *et seq.*
 Guilds, modern, 123, 124, 146; in Tokugawa era, 13, 15, 22-3, 37
 Habutae, 65, 112
 Han (feudal territories), 10, 27
 Hemp, 70
 Hidachi, 78
 Hokkaido, agriculture in, 59; coalfield, 74; colonization of, 30
 Hokkaido Colonial Bank, 50
 Hokkaido Development Commission, 29

- Hosiery industry, 70, 139
 Hu Shih, Dr. (quoted), 158
 Hydrogenation, 147
 Hypothec Bank, 48, 95, 101

 Imperialism, 120, 153, 159
 Import duties, *see* Tariff policy
 Import surplus, 93
 Import trade, 31-2, 86-8, 93 *et seq.*,
 104-5, 152-3, 179-81
 Indemnity from China, 43, 47
 Indian cotton, imports of, 67
 Indian market, 97, 105, 151
 Indian tariff, 98
 Industrial Bank of Japan, 49, 95, 101-2
 Industrial efficiency, 112, 133-4, 140 *et seq.*
 Industrial Rationalization Bureau, 145
 Industrial relations, 157-8
 Industrial system, dual character of, 56,
 119
 Industry, in early Meiji era, 29 *et seq.*,
 60 *et seq.*; in Tokugawa era, 13-14,
 21-3; small-scale, 33, 56, 83, 119; *see*
 also under particular industries, and
 State intervention
 Inflation, 39-40, 95
 Inouye, Finance Minister, 96-7, 99, 130
 Inouye, Marquis, 126
 Iron and steel industry, 14, 73-4, 88,
 107, 116, 120, 137, 143, 147, 177
 Iron ore, imports of, 116; production of,
 147
 Ito, Prince, 22 n.
 Iwasaki, 84, 126

 Japan Iron Manufacturing Company,
 147
 Japan Oil Company, 75

 Kaempfer, views of, 15
 Kagoshima, bombardment of, 17; ship-
 building at, 30
 Kamaishi mines, 74
 Kanegafuchi, 65
 Karafuto (Southern Saghalien), 121
 Katakura Company, 63
 Kawasaki, 77
 Konoike, 21

 Korea, annexation of, 49; development
 of, 42-3, 109, 148; rice production in,
 98, 109; trade of, 74, 104, 152
 Kuhara, 75, 78
 Kyoto, 10, 82
 Kyushu coalfield, 74

 Labour supply, 71-2, 82, 156-7
 Lacquer and lacquer ware, 60, 82
 Land tax, 11, 36, 42, 44
 Land tenure, 10, 59, 108
 Leadership, in Meiji era, 24, 26-7
 Loans, Government, 35-6, 39-40, 42-3,
 95, 129-30
 Locomotives, manufacture of, 77
 Lukouchiao "Incident," 135

 Machinery, exports of, 150-1; imports
 of, 117, 152; production of, 77-9,
 117-18, 143-4, 155
 Major Industries Control Law, 145
 Manchurian Campaign, 98
 Manchuria, development of, 126-7, 132,
 147-8, 151
 Manufacturers' Guilds, 123-4, 146
 Markets, foreign, for Japanese goods,
 88-9, 105, 150 *et seq.*
 Match industry, 31, 33
 Matsukata, Prince, 19, 40-1, 42, 45
 Meibutsu (speciality) trades, 13, 33, 118,
 156
 Meiji era, beginning of, 25, 26 *et seq.*
 Merchant class, in Tokugawa era, 14-15,
 20 *et seq.*, 28, 37
 Miike mine, 14
 Military cliques, influence of, 98, 129,
 145 *et seq.*
 Millet, 108
 Mining industries, 28, 30, 74-6, 144; *see*
 also Coal, Copper
 Minseito, 96, 126
 Mint, establishment of, 34
 Mitsubishi, 30, 54, 75, 77, 78, 81, 84,
 100, 125-8
 Mitsui, 15, 34, 54, 78, 79, 81, 83, 100,
 125-8, 148
 Mitsukoshi Departmental Store, 83
 Miyata Bicycle Works, 79
 Money economy, spread of, 12-13

- Monopolies, Government, 120
 Motoori Nobunaga, 17, 18 n.
 Mulberry trees, cultivation of, 60, 110
 Muslin production, 69-70, 139, 176
- Nagasaki, 15, 29
 Nagoya, 82
 Naked barley, 58
 National debt, 37, 42-3, 129, 187
 National income, 106, 188
 "Natural" economy, 12-13
 Navigation Subsidy Act, 76, 85
 Nippon Menkwa, 67
 Nippon Yusen Kaisha, 67, 85, 126
 Nishihara loans, 91
 Nishijin weavers, 64
 Nissan (Nippon Sangyo Kaisha), 149
 "No loan" policy, 98-9
 Note issues, of Bank of Japan, 46, 92-3, 130, 184; of *daimyo*, 20-1, 34; of Government, 20-1, 34, 35, 37 *et seq.*, 46; of national banks, 38-40, 46
- Oil industry, 75-6, 88, 147
 Oji Paper Company, 79
 Okuma, Count, 30, 126
 Okura, 127
 Onoda Cement Company, 81
 Opium War, 26
 Oriental Development Company, 50
 Osaka, 13, 14, 31
 Osaka Iron Works, 76
 Osaka Shosen Kaisha, 85
 Osaka Spinning Mill, 65
 Over-staffing of factories, 143-4
- Paper industry, 33, 79-80, 142
 Peasant industries, 12, 33, 59-60
 Peasants, in early Meiji era, 57-9; in Tokugawa era, 11-12, 19; world depression and, 98
 Pension Bonds (for *samurai*), 35-6, 38-9
 Perry, Commodore, 16, 18
 Population, growth of, 106, 133, 163; in Tokugawa era, 11, 20; occupational distribution of, 108, 115-16, 164-5; rural and urban, 57, 163
 Postal system introduced, 28
- Pottery industry, development of, 28, 60, 82, 118, 142-3; exports of, 33, 87, 118
 Poultry farming, 109
 Prefectures, establishment of, 27
 Prices, changes in, 20 *et seq.*, 40, 47, 93 *et seq.*, 131, 135
 Production, indices of, 132, 173
- "Quasi-war-time economy" (Junsenji Keizai), 135, 148-9, 159
- Railways, 28, 30, 42, 77, 178
 Railway Debt, 44-5
 Rates of interest, 42, 130, 135
 Raw material production, 107, 169
 Rayon industry, 139
 Re-armament policy, 129, 138, 149
 Reflation, 129 *et seq.*
 Restoration, The, 25
 Retail prices, 131, 182
 Retail shops, 15, 83
 Revenue, public, 33-4, 44-5, 129
 Rice, area under, 57, 171; exports of, 33, 87; imports from colonies of, 108-10, 171; production of, 12, 58, 108, 171; price of, 21, 98, 109; rents paid in, 59
 Rice Control Act, 93, 109
 "Rice Riots," 93
 Roads, 15
 Rubber industry, 81-2
 Russo-Japanese War, 42, 43
- Saga Rebellion, 27, 35
 Saghalién, *see* Karafuto
 Sake, production, 14, 80; tax, 42
 Samurai, 10 *et seq.*; 21-22, 24
 Sankin Kotai (alternate attendance), 10, 14, 20-1
 Satsuma clan, 18, 26, 29, 30
 Satsuma Rebellion, 27, 37, 84
 Savings banks, *see* Banks
 Seclusion policy, 15, 16, 20, 23-4
 Seiyukai, 126
 Shibaura Engineering Works, 77
 Shimonoseki, Treaty of, 85
 Shinko-zaibatsu, 149
 Shinto, 18

- Shipbuilding Encouragement Act, 76
 Shipbuilding industry, 29, 76-7, 117, 138, 147, 178
 Shipping, 28, 30-1, 84-6, 91, 120, 138, 178
 Shogun, *see* Tokugawa
 Silk piece-goods, export of, 65, 87, 112, 140
 Silk spinning, 64
 Silk, raw, exports of, 32-3, 61-2, 87-9, 97, 104-5, 150, 157, 172; price of, 98, 111, 132; production of, 12, 13, 29, 31, 60 *et seq.*, 107, 110-12, 140, 142, 172; redundancy scheme for, 146; valorization scheme for, 93, 98
 Silk weaving, 64-5, 140
 Silkworm disease, 32, 60
 Silkworm eggs, export of, 31-2; production of, 60, 63
 Silver standard, 40
 Silver, depreciation of, 32, 47
 Sino-Japanese War (1894-5), 42-3; (1937), 136
 Social organization, 10 *et seq.*, 20 *et seq.*, 156
 South Manchuria Railway Company, 49, 121, 149
 Standard of life, 93, 106, 109, 131-3
 Staple fibre industry, 139
 State intervention, 22, 27 *et seq.*, 56, 60, 63, 71, 73, 78-80, 120 *et seq.*, 144 *et seq.*, 157
 Subsidies, 76, 78, 80, 84-5, 121, 147
 Sugar, imports of, 88; production of, 29, 80-1, 121
 Sumitomo, 78, 100, 125-8
 Sumptuary laws, 11, 32
 Suzuki, 96
 Taisho era, 90
 Takahashi (Finance Minister), 129-30
 Tariff policy, 68-9, 104, 121-3
 Tatami manufacture, 60
 Taxation, 36, 41-4, 95, 129, 135
 Tea, 32-3, 87
 Technical education, 28, 58, 84
 Terms of trade, 133, 152-3
 Textile trades, importance of, 70-1, 87-8, 105, 115-16, 136-7; *see also* cotton, silk, wool, etc.
 Tobacco, monopoly, 43, 120; tax, 42
 Tokaido, 15
 Tokugawa government, 9 *et seq.*, 22, 29, 154; difficulties of, 18-20; downfall of, 24-6; revenue of, 11, 12, 19
 Tokugawa Ieyasu, 17, 19
 Tokyo Electric Company, 77, 78
 Tonya (merchants), 63, 64
 Trade associations, 124
 Trade Association Decree, 13
 Treaties, commercial, 17, 43
 Trust companies, 103
 United States, trade with, 89, 97, 105, 150 *et seq.*
 Uyeda, Professor (quoted), 132
 Wages, 106, 131-2, 183
 War, preparation for, 129 *et seq.*, 148 *et seq.*
 War-time economic policy, 136
 "Welfare capitalism," 72, 157
 Westernization, policy of, 26 *et seq.*
 Wheat, 58, 108
 Wholesale price indices, 47, 93, 94-6, 97-8, 131, 182
 Wire and cable industry, 77
 Woollen and worsted industry, 29, 30, 68 *et seq.*, 107, 114-15, 139, 142, 176
 Yasuda, 54, 70, 100, 125-8
 Yawata Iron Works, 74, 116, 120
 Yedo (Tokyo), 10, 13, 14, 31
 Yen, as standard coin, 34; depreciation of, 130, 133; over-valuation of, 95, 97-8
 Yen bloc, 152
 Yokohama Specie Bank, 47-8, 53-4, 64, 92, 102
 Zaibatsu, 50, 75, 78, 80, 101, 102-3, 125-8, 148-9, 158

लाल बहादुर शास्त्री राष्ट्रीय प्रशासन अकादमी, पुस्तकालय
Lal Bahadur Shastri National Academy of Administration Library

मसूरी

MUSSOORIE

यह पुस्तक निम्नांकित तारिख तक वापिस करनी है।

This book is to be returned on the date last stamped

[illegible]

330.952

All

अवाप्ति संख्या 105723

Acc No. ~~9055~~

वर्ग संख्या

पुस्तक संख्या

Class No. _____

Book No. _____

लेखक

Author Allen, G. C.

शीर्षक

Title A short economic history
of modern Japan.

निर्गम दिनांक विभागाध्यक्ष की मर्याद

330.952

All

LIBRARY

LAL BAHADUR SHASTRI

National Academy of Administration

MUSSOORIE

Accession No. 105723

1. Books are issued for 15 days only but may have to be recalled earlier if urgently required.
2. An over-due charge of 25 Paise per day per volume will be charged.
3. Books may be renewed on request, at the discretion of the Librarian.
4. Periodicals, Rare and Reference books may not be issued and may be consulted only in the Library.
5. Books lost, defaced or injured in any way shall have to be replaced or its double price shall be paid by the borrower.